Centripetal Bias in the Federal Fiscal Relations in India Growing Regional Disparity and Feeling of Discrimination—

A Case Study of West Bengal

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In the preparation of this study primary sources such as the Central government's documents as well as the State government's have been consulted. In this regard, Economic Review, Statistical Abstract, Budget Speech given by the Finance Minister before the West Bengal Assembly, Budget Statement, Memorandum Submitted to the different Finance Commissions and the Planning Commission by the West Bengal government, report of the meeting of National Development Council, report of the meeting of the Inter-State Council, Report of the State Finance Commissions, Report of the Comptroller of Auditor General, Government of West Bengal, document of West Bengal on Centre-State Financial Relations have been mainly dealt with.

In collecting these material, I have been immensely benefited by Planning Commission Library, New Delhi; National Institute of Public Finance and Policy, New Delhi; Office of the Comptroller of Auditor General of India and SAPRU House Library in New Delhi.

In West Bengal, I have mainly consulted, Centre for Studies in Social Sciences, Calcutta; State Institute for Rural Development, Kalyani, Nadia; Institute of Social Science, Calcutta; Commercial Library, Calcutta; West Bengal Legislative Assembly House Library; Bureau of Applied Economics and Statistics, government of West Bengal; National Library and Muzaffar Ahmad Pathagar, (CPI (M) Party Library) .

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Introduction

Public finance is said to lie in between politics and economics. The accusation of discrimination against a State or a particular region in a federal economy like India requires to deal with the question of politics as well as economics i.e., economic factors as well as non-economic factors. However, the question immediately arises in our mind why one or more than one States or regions are subject to discrimination and others are favoured. What factors lead the Central government to discriminate against a particular State? Is there any correspondence or strong positive connections between political opposition and discrimination or the volume of transfers among different States i.e., favouring better region against poorer region mainly determined by economic considerations. Despite the fact that Finance Commission and Planning Commission have been constantly searching for suitable criteria or formula (distribution of Central assistance through Gadgil formula by Planning Commission since 1969) for distribution of resources among the States for attaining regional balance. It also remains to be seen whether such discrimination faced by the States in general and less developed States in particular is a part of over all regional inequality of Indian federation or it is just a deliberate move against a particular State.

The Indian federation is said to have undergone qualitative change over time. Broadly speaking the first three decades after Independence, were the period of consensus and non-antagonism so far as Centre-State relations in India were concerned owing to the existence of one Party system ('in which power was shared between the Centre and States under the control of the ruling Congress Party'). Though some underlying conflicts were there but it was sought to be resolved informally without letting such contentious issues come to the fore. After the fourth general election (1969) several States of the Indian federation experienced non-Congress government. Thereafter, the conflict between the two levels of government came to the fore much frequently and intensely than before. Subsequently several attempts were undertaken by the States as well as the Centre to review the existing order of federal fiscal relations radically. Authors such as Ray & Kincaid (1988) commented on the outcome of a second generation strain on the Indian federal system. They said that, "...thus strain originate from a redefinition of the demand on the structural change of the India's federation rather than reinforcing constitutional restraints on national government."

However, the first generation of the Indian federation is said to have existed until the late-1960s. During the period of the first generation a major part of demands of the States 'was directed towards reinforcing constitutional restraints on the national government'. And it was only confined to the functional aspect of federal fiscal relations. For example, many States voiced their concern against the growing importance of the Planning Commission as non-Constitutional body over the Finance

Commission as a Constitutional body. Contrary to that during the period of second generation many State governments and political parties (see also Maheswari B.L, ' Centre-State Relations Issue Awareness and Party Positions', EPW, June 12, 1971) demanded structural changes in the Indian federation which was expected to secure more power and autonomy to the States.

Over time the tension between the Centre and the States has been cropping up as regards distribution of fiscal power between the States and the Centre. Eventually this area started attracting scholarly attention and several macro and micro studies were undertaken as regards the general problem of federal fiscal relations of India. These studies can be broadly divided into two areas. One is related to the general description of federal fiscal relations, structure and functions of multiple resource transfers agencies, different types of fiscal power distribution between the Centre and the States at par with the Constitutional assignment. These studies also addressed the qualitative deterioration as regards distribution of fiscal power that took place between these two levels of government due to legislation passed by the Centre. In the course of time this eventually broadened the fiscal power of the Centre and limited the fiscal power of the States. It was pointed out that Constitutional rules regarding resource distribution between the Centre and the States are being violated by undermining the functions of statutory body like Finance Commission and allowing non-statutory body like a Planning Commission take upper hand over the Finance Commission. Of the several significant studies which we may mention here, National Institute of Public Finance and Policy (1981), Rao & Chelliah (1991), Prakash, Om (1996) and recently Vithal & Sastry (2001).

Another type of studies of literature of federal fiscal relations was related to operational failure of Indian federal fiscal relations which leads to ever widening regional disparities in the Indian federation. This area also attracted adequate scholarly attention. Among the relevant publications are, Rao (1981), George & Gulati (1988), Rao & Govinda (1996). Recently several micro studies revealing the effect of New Economic Policy,1991 on unequal distribution of budgetary transfers among the States and consequently further accentuation of regional imbalance were also undertaken by Chakravarty (1999), Kurian (1999) and Kurian (2000).

George and Gulati (1988) probably made the first attempt to undertake a macro work related to the emerging problem of regional imbalance in the Indian federation. All States in the Indian federation, in accordance to this study, were broadly divided into three groups such as high, middle and low income States. Likewise total budgetary transfers from the Centre to the States were also broadly divided into statutory, Plan and discretionary transfers. Considering the period from 1951-81 the effect of such transfers among these three different groups of the States were noticed. It emerged that high and middle income States always received almost all types of transfers of a greater magnitude than low income States. Considering different types of transfers it was observed by this study that discretionary transfers which are channelled through Centrally sponsored schemes and

Plan transfers channelled through Planning Commission clearly have a more regressive tendency than statutory transfers channelled through Finance Commission. It was also observed that high income States always managed to receive discretionary and Plan transfers not only higher than low income States but also middle income States. Furthermore, the most disheartening feature is that the degree of inequality of distribution of discretionary and Plan transfers among these three major groups was much higher than that of statutory transfers. Statutory transfers have relatively more equalising effects than other budgetary transfers. Therefore, of all transfers it was inferred that statutory transfers have less regressive tendency than discretionary and Plan transfers. But such limited progressivity was offset by the fact that overtime discretionary and Plan transfers have been gaining importance over statutory transfers in terms of both magnitude and number.

George & Gulati (1988) made an attempt to include institutional transfers channelled through Centrally controlled financial institutions and scheduled commercial banks in the purview of federal fiscal transfers. So far total budgetary transfers disbursed by Central multiple resource transfers agencies (Finance and Planning Commission) and Centrally sponsored schemes only had attracted scholarly attention in the literature of federal fiscal relation. The inclusion of institutional transfers in the study of George & Gulati (1988) was legitimised by the fact that on the one hand after the nationalisation of commercial banks (1969) credit and investment disbursed among the States by scheduled commercial banks were subject to control exercised by the Centre and on the other hand the share of institutional transfers in total transfers i.e. budgetary and institutional taken together was very high and accounted for near by 50 per cent of all States average during 1969-76.

However, the most disquieting feature is that institutional transfers with such a higher proportion in total transfers shows the most regressive tendency among all transfers. This clearly accentuates regional imbalances in the Indian federation further. Considering the period from 1973-80 it was noticed that per capita share of total institutional transfer of high income States (Rs. 690) was almost more than three times higher than per capita share of institutional transfers of low income States (Rs. 205). Considering such highly regressive trend of the institutional transfers in the Indian federation George & Gulati feel that a high degree of progressiveness in the inter-State distribution of Central budgetary transfers should be introduced in order to make up for the regressiveness of institutional transfers. Furthermore, among the different types of budgetary transfers a much larger role should be played by a statutory body like Finance Commission. In order to establish the equity among different States not only greater role of Central budgetary transfers is required but also a greater role of statutory transfers should be ensured.

Rao (1981) also made an attempt to indicate widening regional imbalance in the Indian federation and wanted to redefine the level of backwardness and development of the States by constructing separate indices of development as well as composite index of development of the States. In the first place separate indices of development were constructed which include, agricultural development, industrial development, index of banking development, development index of education. Eventually an attempt was made to construct a State-wise composite index of development instead of constructing different development indices by considering different economic indicators separately in order to incorporate overall development of the States. Having constructed such index of development the study categorised all States under three different groups such as developed States, average States and backward States. As far as Central budgetary transfers among the States per se was concerned the study covering the period from 1957-61 to 1969-73 concluded developed States and average States in general managed to receive more of almost all types of budgetary transfers than backward States. In reasoning along this line the study concluded that Central budgetary transfers could not achieve the goal of redressing the regional imbalance of Indian federation which has been increasing over time instead of being narrowed down.

Rao & Sen (1996) widened the area of the discussion of regional imbalance in the Indian federation. The study was not confined to direct effect of Central budgetary transfers among the Centre and the States and the States inter se but also incorporated the indirect effect of Central policies in general which has significant adverse effect on the budgetary position of the States. Vertical fiscal overlapping functions in the Indian federation are said to have an indirect adverse effect on State's fiscal capacity. Unilateral decisions taken by the Centre to increase administered prices have eventually made the current cost of ongoing schemes undertaken by the States much higher than before thus reducing their actual fiscal capacity. Needless to say poor and middle income States get much more affected than the rich income States on account of vertical fiscal overlapping functions because these States are not only favoured as far as Central budgetary transfers are concerned but they are also enjoying higher resource mobilisation potential and can find out other means to compensate their loss.

Furthermore, the study also included other areas which affect the fiscal potential of the backward States more than rich income States such as pre-existing disharmony in Indian tax system in general and sales tax system (which is one of the major and buoyant sources of revenue of the States) in particular. Such disharmony leads to not only varying bases of sales tax (i.e., first point, double point and multi-point sales taxation) in the States but also multiple sales tax rates on the same commodity across the States. The complicated sales tax structure eventually produced a conducive environment for sales tax competition by reducing sales tax in respective jurisdiction to divert sales from other States or providing incentive to potential investors. This clearly reduces the resources of less developed States without any commensurate gain. Furthermore, such disharmony of the sales tax system also results in exportation of tax burden from rich income States to poor income States. Therefore, in the Indian federation poor income States are subject not only to the regressive structure of the budgetary resource distribution mechanism but are also exploited by rich income States. Evidently, unequal budgetary transfers, indirect effect of Central fiscal policies i.e., vertical fiscal overlapping functions and lack of harmonisation of sales tax systems in India affects the poor income States more adversely than rich income States hence widening the regional disparities in the Indian federation.

Moreover, in the Indian federal structure interest groups play an important role in diverting public as well as private investment into the respective region. But if one overemphasises political factors one would risk losing the overall perspective. Conversely if one concentrates only on the problem of the broader perspective of regional inequality one may overlook the nuances of political or non-economic factors that may have an influence in this area. Furthermore, it is difficult to prove any politically motivated discrimination convincingly. But that does not necessarily mean there is no discrimination, however, negligible it may be.

Whenever there is a wonderful correspondence between economic development (i.e., when better economic situation and infrastructural provision is conducive for attracting investment) and the same political Party both ruling at the Centre as well as at the State level there is no question that this region would attract a comparatively greater share of the national cake. But the question arises as to whether political factors alone can play any important role in determining the share and if so, then to what extent.

It seems that the influence of other factors namely historical as well as present development of different regions of India also needs to be taken into account. Different types of land settlement policies pursued, unequal distribution of public investment among different Provinces and degree of commercial penetration into different regions during the pre-Independence period might have an enormous impact on future development of different regions during the post-Independence period. This legacy which included the structural disposition of various industries (i.e., export orientation or devoted to import substitution) would be differentially affected by the post-Independence Planning as it did not emphasise export led growth but stressed production for the home market. Furthermore the dominance or absence of the locally committed industrialists seem to play an important role in shaping the development of a particular region and the privileged position it could gain in the Indian federal structure. It seems that political opposition could play a catalyst role under such condition but can not be only determinant of distribution of all types of resources i.e., budgetary (transfer of resources from the Centre to the States) as well as institutional (financial assistance disbursed by centrally controlled financial institutions and commercial banks) resources and share of allocation of industrial licences among the different States a point which has been raised by the Left Front Government in West Bengal since 1977.

West Bengal's economy experienced a dramatic turn during the last several decades. Being initially high income State eventually the State started losing it's pre-eminence in terms of almost all economic indicators and registered a sharp decline since the mid 1960s. Such deterioration of West Bengal's economy gave rise to the feeling of being discriminated against. Several studies undertaken reflected this feeling. Of them Ghosh (1971) and Roy (1971) are worth mentioning. Both of these studies put the blame on the Centre for the present deteriorated condition of the State and projected the idea that the State was discriminated against by the Centre or Centrally controlled financial institutions while other States were favoured.

However, the period covered by these studies (i.e., from 1947 to late 1960s) rules out any possibility of politically motivated discrimination. From 1947 to late the 1960s the Congress Party enjoyed absolute majority in the State and during that time the Centre was also ruled by the same Congress Party. Thus the question arises why the State was discriminated against. Until the early 1960s the State was far ahead of all States and was provided a major share of the national resources by siphoning off money accumulated in the rest of India for it's industrial development, as observed by different studies undertaken from time to time. Afterwards, the Indian economy experienced a downturn since mid 1960s and West Bengal was hard hit by this economic recession. Pre-existing structural constraints of it's economy coupled with State-specific factors made it's economy more recession prone than other States during the economic down turn. Consequently the State was left with a comparatively lesser share of resources since the late 1960s and more acutely since mid 1970s both compared to her previous achievement and compared to other States. Therefore, it seems to us that the deterioration of her economy caused by several structural factors went hand in hand with the volume of resources allocated to the State as was also concluded by Bengal Chamber of Commerce and Industries (BCCI) in the different studies undertaken during late 1960s till mid 1970s. Thus studies undertaken by Roy (1971) and Ghosh (1971) lack an adequate explanation of the reasons behind the accusations made by them that the State was subject to discrimination.

Likewise, Ray and Sato (1987) in their study covering the period from 1947 to mid 1980s also followed the rationale that West Bengal was discriminated against by the Centre all along. But they did not say that it was politically motivated discrimination. Instead the study concluded whichever government came to power in West Bengal whether it was in opposition to the party ruled at the Centre or the same party both ruling at the State as well at the Centre, discrimination against the State was always there. However, even though Ray and Sato (1987) did not mention any politically motivated discrimination there is a strong undertone that West Bengal has been subject to discrimination due to it's political opposition particularly since 1977. But the reasons behind such discrimination neither during the pre-Left Front era nor during the post-Left Front era were clearly explained. The study mentions that the State has been subject to discrimination as far as budgetary and institutional transfers was concerned along with a low share of allocation of industrial licences. These are the areas in relation to which the Left Front Government also feels like being discriminated against.

Concerning budgetary transfers recommended by the Finance Commission, it is observed that the criteria selected for resource devolution have been subject to criticism for not containing enough progressivity. It has also been pointed out that the gap-filling approach of the Finance Commission leaves richer States with higher budget surpluses than poor States. This approach is geared to the covering of the gap between resource transfers and anticipated State expenditure. Several studies have undertaken from time to time covering the post-Independence period till to date observed that the effect of such transfers is unequal and has failed to redress regional imbalance.

On the other hand it must be stressed that total allocation of Plan outlay of a State consists of Central assistance for State Plans and own resource mobilisation. Until 1969 there was a discretionary element in the Central assistance for State Plans. But since 1969 with the introduction of the Gadgil formula regressive trends in Central assistance for State Plan have been reduced. Nevertheless the unequal allocation of total Plan outlay among the States continued. Quite evidently low income States lag far behind richer income States in terms of the capacity of own resource mobilisation. Hence total Plan allocation of rich income States continued to be much higher than low income States widening regional disparities in the Indian federation.

Therefore, we fail to understand why budgetary transfers should discriminate against a particular State, as argued by Ray & Sato (1987). The State may simply share the same fate with the whole group of the less developed States. These States might be victimised due to the wrong criteria chosen for resource devolution and also due to the low potential for resource mobilisation. Consequently the regressive trend of resource allocation in the Indian federation, as concluded by different studies, can benefit some richer States and discriminate against less developed States in general. But it can hardly discriminate against a particular State.

Regarding other transfers mentioned by Ray & Sato (1987) such as financial transfers disbursed by Centrally controlled financial institutions and allocation of low level of industrial licences to the State which are supposed to be major areas of discrimination against the State. The studies undertaken by BBCI shows that the deterioration in terms of these factors started long before than the Left Front government came to power. Furthermore, there is a strong positive connection between development of a particular State and institutional transfers as well as allocation of industrial licences which have also been shown by different studies.

Of all types of transfers, as it is observed, the transfers made by Centrally controlled financial institutions and commercial banks contain the most regressive tendency. These institutions are mainly guided by optimal return rather than any egalitarian principles of redressing regional imbalance. Even though one of the professed goals of nationalisation of commercial banks in 1969 was to ensure sectoral as well as regional diversification of bank credit. This has not been attained. Therefore, any attempt at singling out a particular State from the overall regressive structure of resource allocation in the Indian federation risks losing the broader perspective of the problem. Moreover, any interpretation of the cause of continuous and sharp decline of West Bengal's economy or comparative unprivileged situation in terms of discrimination made against the State in particular seems to overlook other factors that could play determining role in this regard.

The present study aims at addressing the problem of sharp deterioration of West Bengal's economy and consequent feeling of being discriminated against since 1977 i.e., the period when the Left Front came to power, from the State-specific structural, historical and economic perspectives. Such factors coupled with regional inequality existing in the Indian federation need to be addressed. Without having such integrated approach of addressing the feeling of being discriminated we would either get caught in a macro perspective of inter-State imbalance of Indian federation and would miss the State specific problems or we would be pre-occupied with the State specific problem that would obviously lack a broader perspective. The State in a Indian federation is subject to mainly four types of constraints. Firstly, the Indian federation has a strong centripetal bias and imbalance of fiscal power between the States and the Centre, Secondly, the State belonging to the less developed group has added disadvantage of being discriminated against while rich income States are favoured. Thirdly, the State belonging to a poor region namely the eastern region has other typical handicaps due to both historical development and the post-Independence development of this region. And finally, there are some State-specific constraints which are also partly the legacy of the pre-Independence period and partly the outcome of the post-Independence development. Such State-specific factors also seem to play an important role in determining the course of development of a State and the benefits which can accrue to the State.

However, several studies undertaken since Independence indicated that regional imbalance in the Indian federation seem to have aggravated over time instead of getting narrowed down. The States are constantly engaged in free-riding behaviour and are in conflict with each other for getting the maximum share. Net loser of this game are obviously the less developed States. Economic liberalisation introduced in 1991 reduced the role of the Centre and allowed the market to play much larger role in determining investment pattern and all types of resource allocation. The market would follow where the return is highest. Therefore, the intra-State imbalance have widened more sharply during 1990s than in the previous decades.

Thus it seems that even the best criteria for devolution of funds could only scratch the surface of deep-seated regional inequality. The studies undertaken from time to time as regards regional imbalance in the Indian federation repeatedly emphasised the fact that not only more allocation of financial resources but also financial power of the poor income States should be enhanced so that an equality in varying stages of development among the States could be achieved. Thus there is a urgent need of radical approach of Finance Commission and Planning Commission to deal with the regional imbalance which has been existing for several centuries and has caused variation of the revenue raising potential of different States.

Deep-seated regional inequality which has historical roots necessitated the analysis of the long term development of Provincial finance of Bengal. This might help us to understand how Bengal Province was treated and affected against the backdrop of evolution of Imperial-Provincial financial system of British India. Thus the feeling of being discriminated is of very old standing. Bengal felt that it was denied it's due share all along against it's contribution to the Imperial exchequer which was much higher than that of other Provinces. First chapter of this study brings out the historical development of Bengal federal finance and deals with perceived discrimination of Bengal during the pre-Independence days. Needless to say that the course of financial development of pre-Independence Bengal had enormous impact on the State's development during the post-Independence days.

The feeling of being discriminated against underwent qualitative change in West Bengal in the post-Independence period. Therefore the study of politics of discrimination since 1977 requires to deal with the conceptualisation of discrimination during the pre-Left Front period as well as during the post-Left Front period. Second chapter of this study mainly tries to address this issue from this broader perspective. Which aims at describing the discontent regarding Centre-State financial relations during the pre-Left Front era i.e., during the Congress regime and also outlines political economy of federalising process of West Bengal and perceived discrimination during the Left Front era i.e., since 1977.

We have already mentioned that an individual State in the Indian federation is subject to four different types of constraints. Therefore, while discussing allocation of all types of resources to the States and consequent feeling of being discriminated against we need to see the problem from the integrated approach. The third and fourth chapters of this study try to address this issue from the integrated approach. Thus the third chapter of this study deals with the historical constraints constituted on West Bengal's economy which eventually gave rise to the feeling of being discriminated against in the later period. While the fourth chapter describes institutional mechanism of transferring resources from the Centre to the States and it's regressive tendency in general.

The fifth chapter deals with parameters of discrimination as was felt by the Left Front government since 1977. And describes how far such discrimination is time specific, State specific and politically motivated discrimination and to what extent it is part of overall regional imbalance of the Indian federation.

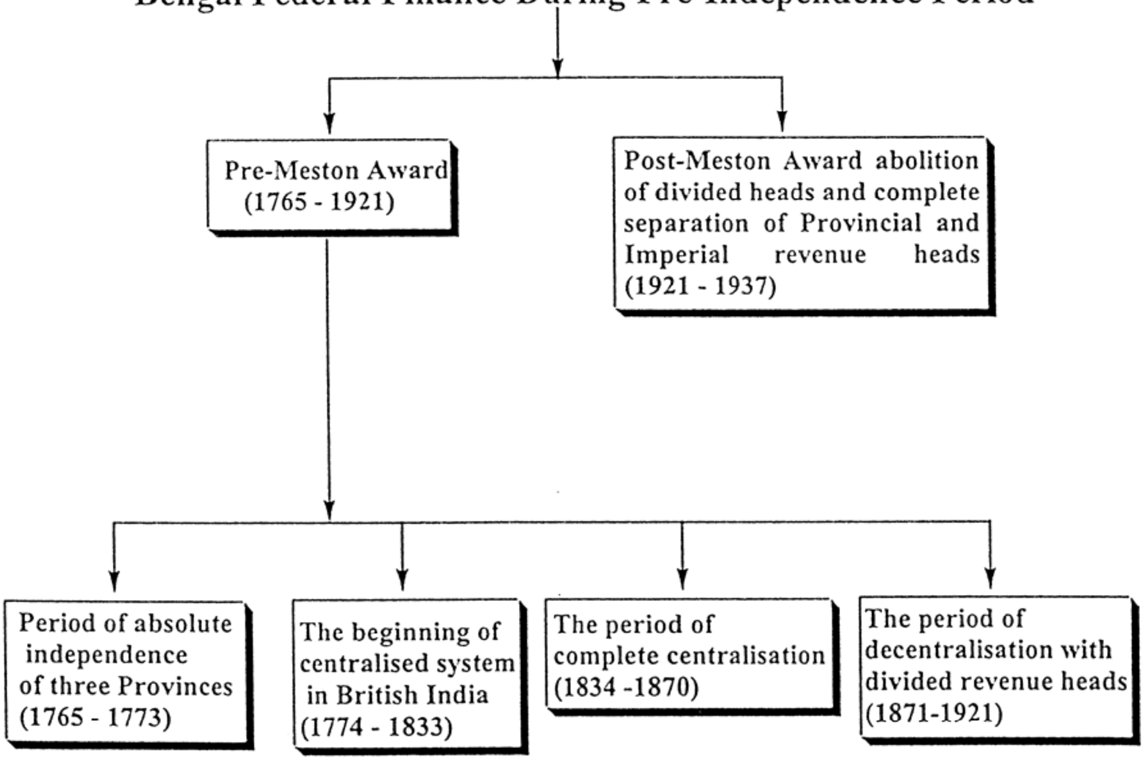
However the integrated approach of dealing with the problem of feeling of discrimination felt by a particular State seems to overlook other factors which are no less important. One of these factors is inability of the State to manage its economy efficiently and economically coupled with fiscal in-discipline and profligacy exercised by the State. Such factors seem to have affected its economy further and caused a meagre allocation of resources. The sixth chapter of this study intends to throw some light in this area i.e., deals with fiscal prudence and discipline pursued by the State during the last two decades (1980-00) in order to find out the extent to which the State has been responsible for its present financial crisis.

While complaining about discrimination the State never thinks of its failure to widen its resource base efficiently by exploiting its resource mobilisation potential by complete utilisation of the limited fiscal power assigned to the States in the Indian federation.

The State failed to generate resources from the advancement of agricultural growth during the post-Left Front era. The agricultural sector of the State registered impressive growth since the early 1980s through structural and institutional change of the rural economy coupled with reactivating local governments. But the State not only failed to tap unexploited local resources by decentralising fiscal power to local governments but also seems to have placed severe fiscal burden on the State government finances by making these local governments dependent on the State government for their existence. Seventh chapter of this study aims at describing the State-local government financial relations. The chapter tries to describe how far the Left Front government which always stands for more decentralisation of financial power in the arena of the Centre-States financial relations, is committed to devolve financial power to local governments in order to make them function as self government. The debate always is about Centre-State relations whereas State-local government relations are neglected. Resource mobilisation should start from below, but there is a political fear that devolution would reduce the power of the State government which is in a strong position as long as local governments depends on it for funds.

Chart: 1

Bengal Federal Finance During Pre-Independence Period



Chapter: 1

Bengal Provincial Finance and Feeling of Discrimination during the Pre-Independence Period

Our study regarding feeling of discrimination so far Bengal Province was concerned during the pre-Independence period could be broadly divided into two periods. One, the pre-Meston award (1765-1920) and the another, the post-Meston (1921 to 1937 until the implementation of Government of India Act 1935). Pre-Meston award period could be further subdivided into four periods viz., period of absolute independence of three Provinces (1765-1773), beginning of centralised system in British India (1774-1833), period of complete centralisation (1834-1870) and period of decentralisation with divided heads (1871-1921). Post-Meston award period, however, was characterised by the period of abolition of divided heads and complete separation of Provincial and Imperial revenue heads (1921-1937). (See Chart: 1) Against the backdrop of such evolution of federal finance in British India the problem of Bengal Provincial finance needs to be considered.

Bengal one of the oldest Provinces was first conquered by British and was subjected to highest form of exploitation or extraction of wealth to meet the ambitious schemes of territorial expansion of East India Company as well as the deficits of other Provinces. Thus, Bengal was considered mother of all Provinces from whose resources the prosperity and well being of the rest of India were heavily dependent. But “this drain of wealth[1] from Bengal”, as felt by one scholar, “was not compensated for by any increased prosperity of her trade and industries which on the contrary received a severe blow during the period 1757-1772”. (Sinha, 1927, p. 106)

Such continuous over extraction of wealth from Bengal for meeting the urgent need of expansion and consolidation of British empire had given rise to a feeling that Bengal was discriminated against. Thus, discrimination against erstwhile Bengal and now West Bengal has been a long standing phenomenon which continues till date.[2]The feeling of being discriminated

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[1] Drain of wealth from Bengal for meeting different needs of British India as well as appropriation of wealth of Bengal by East India Company’s servants in the form of ‘investment’ was acknowledged by different scholars. Of them Dutt (1956), Furber (1948, p. 311) and Marshall (1987, p. 165) need to be mentioned.

[2] The studies undertaken by Furber (1948), Marshall (1987) observed that Bengal’s wealth was utilised for expansion and consolidation of British power and meeting deficits of other Provinces during the early phase of British empire. Roy (1971) felt that “Bengal, the real pagoda tree was fleeced to help them out...the surplus was credited to Bombay and Madras to enable them to meet their “needs”. Bengal existed for Britain-and for Bombay and Madras. Bengal thus began suffering from centralised management of public finance in India. She continues to suffer on this account.” (Roy, R, The Agony of West Bengal A Study in Union-State Relations, New Age Publishers Private Limited, Calcutta, 1971, p. 21). In Roy’s (1971) opinion, even after Independence the rest of India was benefited at the expense of West Bengal. For instance, introduction of freight equalisation policy (1956) was meant to favour other States and discriminate against West Bengal and the whole eastern region. Therefore, West Bengal had to carry the legacy of being at the service for other States and for the rest of India and the drain of wealth from West Bengal continued till date. The study undertaken by Ray & Sato (1987) also concluded that West Bengal was always discriminated against irrespective of the Party ruled at West Bengal though “it

against became very apparent during the mid-19th century among the Bengal academia, the common people and government officials. The predominant feeling was that Bengal was made to pay more than its due share. Such contention got intensified and received massive support when public expenditure gained momentum after the Mutiny of 1857. It was alleged that Bengal received lesser share of public expenditure particularly in irrigation, compared to other Provinces. The counter argument was that the demand for more public expenditure of a particular Province should be made against the contribution each Province offers in the form of land revenue to the Imperial exchequer. (Bhattacharyya,1971, p.268)

The Permanent Settlement, 1793 of land revenue, had rendered per head almost the lowest in Bengal compared to other Provinces during in the following decades. Having tried different forms of land revenue system, Permanent Settlement was established in order to extract bulk of the revenue from land with complete certainty and regularity necessary for the ongoing conquest of East India Company. Paradoxically, Permanent Settlement, which made it possible to ensure flow of funds incurring a very low cost of collection and helped to expand and consolidate British empire, had become the major source of contention for it inhibited Bengal government from realising large amount of land revenue in the later period. Furthermore, productivity of agriculture which depended on rural infrastructural development was severely affected on account of low level of local cess[3] collection from land revenue from Bengal. Because local cess was imposed with a view to finance local infrastructural development. This in turn had adverse impact on buoyancy of land revenue--one of the major sources of revenue until the early part of the 20th century. Therefore, in the subsequent decades Permanent Settlement had far reaching impact on revenue base and hence on economic prosperity of Bengal.

The adverse consequence of Permanent Settlement again came to the fore with the introduction of Meston Settlement (1921) During the Meston award Bengal came up as an industrial Province and large proportion of income tax and custom duty was generated in the Province. Bengal was most hard hit by this scheme while income tax and customs duties were kept under

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was quite possible that the Centre was not deliberately planning discriminatory measures. Perhaps the Centre was simply engaging in thoughtless actions, and West Bengal's difficulties inclined it to interpret these actions as patently discriminatory." (Ray, J. K & Sato, H, Centre-State Financial Relations in India A Focus on West Bengal, Institute of Developing Economics, Tokyo, 1987, p. 121)

[3] Local cess earmarked for local improvement was also quite low in Bengal. However, local cess on land came to the fore with the introduction of decentralised scheme introduced by Lord Mayo (1871). When all other Provinces took the initiative to impose cess on land, in Bengal local cess was perceived as a betrayal against Bengal's landlord on account of Permanent Settlement. Consequently such local cess imposed on land faced stiff opposition and was perceived as an extra tax burden and hence illegitimate. Evidently, local cess for local purposes (such as road, irrigation, education,) on land of Bengal was the lowest and it was of great difficulty to impose further tax on land for public expenditure. We would turn on to this area later in this study.

the Imperial head. And land revenue which lost it's buoyancy in Bengal was kept under the Provincial head. Naturally, Bengal demanded abolition of the Meston Settlement and along with it wanted different forms of privileges and compensation. However, it was argued by some scholars namely Shah (1921),Thomas (1939), Misra (1942), that Bengal so far had already got privilege proportionate with its low level of contributions to the Imperial exchequer in the form of decreasing share of land revenue during the last several decades. All these subsequently resulted in an unequal burden of taxation among different Provinces.

Evidently, the debate among the intellectuals of Bengal centred around why Bengal should suffer for Permanent Settlement which was introduced in order to meet the immediate need of the East India Company. Therefore, Bengal's demand of being treated specially should be judged on the basis of the totality of contribution the Province made in the past. It was argued that Bengal contributed more during the early phase of British rule in the form of land revenue through Permanent Settlement. During the initial decades of Permanent Settlement the land revenue was fixed at very high rate. Moreover, since the early 20th century its contribution to the Imperial exchequer in the form of income tax and custom duty was much larger than any other Provinces. Particularly, economic depression of 1930s and consequent adversities of Bengal finance gave rise to the demand of sharing the proceeds from jute export duty. Being the sole jute producing Province, Bengal complained that all other Provinces got benefited at its cost by denying its share of the proceeds from jute export duty.

However, it remains to be seen whether Bengal was subject to discrimination as it was alleged from time to time by the intellectuals of Bengal or the Province simply was subject to the innocent victim of the schemes undertaken by British Indian empire from time to time and was subject to exploitation and extraction of wealth as a part of the colonial penetration. It also remains to be seen how far the distribution of public expenditure among different regions of British India since the mid 19th century was the outcome of pragmatic consideration rather than an act of favouritism to some Provinces or to a particular Province.

Adverse impact on Bengal's finance during the early phase of the Company's Days

Investment

The Grant of *Diwani* in 1765 by the Emperor in Delhi marked the beginning of East India Company's (EIC) political career that empowered the Company to trade freely in Bihar, Orissa and Bengal. Though the grant of *Diwani* provided financial powers but gave no administrative authority to the East India Company. The collection and management of revenue was entrusted with the Company but the administration, justice and preservation of law and order continued to be entrusted to the Nawab of Murshidabad. At the very outset the system of double government was established in Bengal leading to complication in its administration and destruction of its indigenous economic structure.

During the continuance of the dual system in Bengal, interference of British Parliament often helped to minimise its adverse effects. The Company used to pay large sum of money from time to time to the British Treasury in consideration of privileges granted by the Parliament to continue their expansion and activities in India. (Banerjea,1928, p.22) However, while British Parliament often intervened in some matters relating to injustice to India, there were other evils that Parliament failed to check. One of such evil is the so called 'investment' which was considered the most serious evil of the dual system of Bengal after the acquisition of *Diwani*[4]. The term 'investment' was used by the EIC for the amount sent to India for buying goods to be sent home. Once the EIC got hold of the revenues of Bengal the investment could be covered by revenue income. Thus a certain portion of the territorial revenue of Bengal was utilised to purchase goods for exportation to England. The amount of wealth taken away from Bengal in the name of 'investment' kept on increasing every year since the acquisition of *Diwani*.[5] From time to time protest made by the Governor of Bengal[6]

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[4] Marshall (1987) observed that "It was presumed that the *Diwani* had created a much more favourable environment for trade and that the large surplus of taxation which was anticipated could be used to purchase a greatly increased 'investment' of Bengal goods". (Marshall, P.J, The New Cambridge History of India II Bengal: The British Bridgehead Eastern India 1740-1828, Cambridge University Press, Cambridge, 1987, p. 104). Furber (1948) was of the same opinion and said "As de facto political sovereign of the provinces of Bengal, Bihar and Orissa, the Company collected a revenue which was supposed to cover the expenses of government and leave a surplus available for investment in India goods for shipment to London". (Furber, H, John Company At Work A Study of European Expansion in India in the Late Eighteenth Century, Harvard Historical Studies, Vol. LV 1948, p. 22)

[5] According to an estimation given by Marshall (1987) "The settling value of the sums laid out for Bengal goods rose from some 400,000 pound sterling at the time of the granting of the *Diwani* to well over 1,000,000 pound in the late 1770s. Thereafter growth was to be restricted. In good years, as in the early 1780 or for part of the 1790s, export costing more than 1,000,000 would be dispatched to London on the Company's ships, but for most of the next 50 years investments were at rather lower levels. It was only in the late 1820s when the Company was about to cease trading altogether that it consistently applied more than 2,000,000 a year to Bengal goods for London". (Marshall, P. J, The New Cambridge History of India II Bengal: The British Bridgehead Eastern India 1740-1828, Cambridge University Press, Cambridge, 1987, p. 105)
The total investment from Bengal from 1766 to 1780 as estimated by Banerjea (1928) amounted to 12,360,264 pounds. For yearwise detail see Banerjea, P, Indian Finance in the Days of the Company,1928, p. 25

[6] In 1767 Government of Bengal launched protested against such evil and wrote to the Court of Directors: "Under these difficulties you must expect the complaints of natives and of foreigners will grow louder every day, unless you should determine to sacrifice the essential point to your interest, the remitting home, by large investments, the benefits of your late acquisitions" (letter dated 25th November 1767; Appendix No. 7 to the Ninth Report of the Select Committee Quoted in Banerjea, P, Indian Finance in the Days of the Company,1928, pp. 24) The Governor of Bengal Verlest also expressed his dissatisfaction from time to time against such extraction of wealth in the name of 'Investment' from Bengal as would be evident from below. Therefore, the financial stress of Bengal was so acute that in 1768 Governor Verlest wrote "The great demand which have been made on this

against such drain of wealth from Bengal is to be noted. Later on when the EIC ceased to be a trading company with the new charter of 1833 'investment' became irrelevant.

Deficits of other Provinces were met by Bengal

Till the year of 1833 the finances of three Presidencies were kept separate. The government of Bombay and Madras were largely independent of the government of Bengal in exercising their financial authority. The Governor-General in council in the case of Bengal, and the Governor in Council in Madras and Bombay, possessed authority to impose taxes and duties and incur expenditure, subject to the control of the Court of Directors and the India Board. The revenue of one Presidency, however, was often used to meet deficits of the other Presidencies.

During the four years (1761-1764) immediately preceding the grant of *Diwani* the revenue collected from Bengal by the Company averaged 655,158 pounds a year, while average expenditure was 683,301 pounds. Whereas the average revenue and expenditure of the Madras Presidency during this period were 191,731 pounds and 403,025 pounds respectively. Bombay showed a revenue of 69,713 pounds and an expenditure of 229,709 pounds. (Banerjea, 1928, p.78) Therefore, both Madras and Bombay incurred much larger expenditure than revenue compared to Bengal and hence Bengal incurred relatively lower level of deficits compared to the other two Presidencies.

The acquisition of *Diwani* (1765) in Bengal, however, changed the situation dramatically. "...the Company's assessment since 1765 showed a steady increase without reference to what Zeminders or the ryots could pay".(Mookerji, 1940, p. 89) Average annual revenue from Bengal had increased substantially from 655,158 pounds during 1760-64 to 2,202,207 pounds during 1765-1771 i.e. it increased, by 236 percent after the acquisition of *Diwani* (table1). Such over extraction from Bengal led to dreadful famine in 1770. But collection of revenue from Bengal kept on increasing despite this famine[7] and continued to exceed its expenditure during the subsequent years.

Presidency from every quarter have reduced your treasury to a very low state, and alarm us for the consequences which must inevitably attend such a vast exportation from this country." Quoted in Banerjea, P, Indian Finance in the Days of the Company,1928, p. 79) And in 1783 Governor of Bengal Verlest wrote, "The impatient demand upon Bengal as an inexhaustible mine of wealth, super-added many other causes of decline to those which already oppressed the laborious inhabitants. Each year brought orders from Europe to enlarge the company's investment" (View Of Bengal, pp. 84). Quoted in Banerjea, P, Indian Finance in the Days of the Company,1928, p. 24)

[7] "Warren Hestings stated that the net collections of 1771 exceeded those of 1768 in spite of famine intervening in 1770. And yet the Quinquennial Settlement of Waren Hestings for the period 1772-1777 was marked by over-assessment based on bids by farmers ousting

The average revenue and expenditure in Bengal, Bombay and Madras Provinces during the subsequent years of acquisition of *Diwani* will be evident from table 2. While there were substantial surplus realised in Bengal both Madras and Bombay had large deficits. From this period on Bengal uninterruptedly showed surplus in its budget until 1828-29, while other two Provinces continuously had deficits in their accounts.[8] (table 2)

Table: 1
Annual Average Revenue and Expenditure of Different Provinces in British India Between 1760-64 and 1778-79

(In Pounds)

Year	Bengal		Bombay		Madras	
	Average Revenue	Average Expenditure	Average Revenue	Average Expenditure	Average Revenue	Average Expenditure
1760-1764	655,158	683, 301	69,713	229,709	191,731	403,025
1765-66 to 1770-71	2,202,207	1,504,934	76,057	306,319	405,191	595,920
1771-72 to 1778-79	2,626,519	1,435,789	169,452	396,451	496,476	468,390

Source: Banerjea, P, Indian Finance in the Days of the Company, 1928, pp. 78-100

Table: 2
Annual Average Surplus (+) and Deficits (-) of Different Provinces Between 1760-64 and 1814-29

(In Pounds)

Year	Bengal	Bombay	Madras
1760-1764	(-) 28,143	(-) 159,996	(-) 211,294
1765-66 to 1770-71	(+) 697,273	(-) 230,262	(-) 190,729
1771-72 to 1778-79	(+) 1,190,730	(-) 226,999	(+) 280,86
1792-93 to 1808-1809	(+) 1,612,299	(-) 1,081,514	(-) 658,463
1814-15 to 1828-1829	(+) 1,891,635	(-) 1,081,595	(-) 205,758

Source: Banerjea, P, Indian Finance in the Days of the Company, 1928, pp. 78-100

But this prolonged surplus in Bengal's finance was completely changed with the outbreak of Afgaan War in 1838. The next ten years, i.e., 1839-40 to 1848-49 were the period of uninterrupted warfare. During this period though revenue expanded progressively, mounting expenditure incurred on wars surpassed increased level of revenue. Considering the financial position of the different Provinces, we find that Bengal and Bombay exhibited deficits throughout the period (1839-1849) and Madras Province exhibited three years of deficit and seven years of surplus. However, it was noticed that "the deficits of Bengal were due to the fact that entire expenditure of the

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the Zeminders. The period presents a story of "huge deficits, defaulting Zeminders, deserting ryots and absconding farmers". All the District Officers were at once in reporting that the country was over-assessed. Middleton considered over-assessment and public auction of farms as causing the famine of 1770 and insisted on " a universal remission of revenue". (Mookerji, R.K,Indian Land-System Ancient,Mediaval and Modern (With Special Reference to Bengal), Government of Bengal, Land Revenue Commission, 1940 p.89)

[8] For year wise revenue and expenditure for different Provinces see Dutt, R, The Economic History of India in the Victorian Age, 1956, pp. 405-407

Central Government was charged to this province. But so far as the provincial accounts proper were concerned, an annual surplus was exhibited by Bengal" (Banerjea, 1928, pp. 106-107). It was also noted that during this period. i.e., during the early part of the 19th century the mounting deficits of British India caused by different wars were largely met by a recourse to loans. And the largest portion of the debt was raised in Bengal. "But the whole of Bengal's debt," as was pointed out by the Court of Directors, "was not really due by that Presidency. Calcutta being the central point in the administration of the country, the other Presidencies often raised their loans in that city. Besides, as the charges of the other Presidencies considerably exceeded their revenues, it is be presumed that a part of the loans of Bengal must have been raised in aid of the wants of Bombay and Madras".(Banerjea, 1928, pp. 114-115)

Banerjea (1928), Gupta (1931), Furber (1948) and Marshall (1987) observed that Bengal's revenue until the early19th century was more than sufficient to meet its own expenditure. But year after year its surplus was utilised to meet the deficiencies of the other Presidencies (see table 3). And also to finance most of the schemes of conquest undertaken by the East India Company. As Furber (1948) observed that the Company's income in Bombay and Madras "was insignificant in comparison to its regular day-to-day expenditure either in war or peace". (Furber 1948, p. 22) Therefore, Bombay and Madras were mainly dependent on Bengal for their regular needs. Thus separately considering the Province of Bombay it was revealed that "Bombay government's finances necessitated huge transfers from Bengal". (Furber,1948, p. 216). Furthermore, "The Bombay governor could not meet his current military and civil expenditure without a subsidy of at least 35 lakhs of Bengal current rupees...". (Furber,1948, p. 217)

As far as Madras Presidency was concerned, Furber (1948) observed that "As a debtor Government, Bombay, like Madras had to draw on Bengal to make up its deficit". (Furber, 1948, p. 207) Such dependence of Madras on Bengal government was mentioned by Furber (1948), Marshall (1987) in several occasions in the studies undertaken by them.[9] But despite receiving

[9] Furber (1948) further observed "Since the two sides of the Company's Madras ledger could never come within measurable distance of each other without the aid of a huge subsidy from Bengal, the Madras government's chief concern was the arrangement of the transfer of this subsidy, a task which could be accomplished only with the facilities provided by the great agency houses. During the trading season of 1786-87, for example, approximately one crore of Bengal government's current rupees were transferred to Madras, forty-four lakhs in Bengal government bonds, fifty lakhs in bills of exchange, and the balance of six lakhs in rice."(Furber, H, John Company At Work A Study of European Expansion in India in the Late Eighteenth Century, Harvard Historical Studies, Vol. LV 1948, p. 195). He went on to say that "Throughout the war, the Bengal government made heavy transfers of funds to Madras by the sale of bills of exchange and cargoes of rice". (ibid., , p. 251)

According to Marshall's observation, " 'Bengal is in itself an inexhaustible fund of riches'. Clive assured the governor of Madras, 'and you may depend on being supplied with money and provisions in abundance' ". (Marshall, P.J, The New Cambridge History of India II Bengal: The British Bridgehead Eastern India 1740-1828, Cambridge University Press, Cambridge, 1987, p. 84) huge funds from Bengal regularly, Madras government could not be able to make both ends meet. (Furber,1948, p. 196) Sir Eyre Coote, the Commander-in-Chief wrote to the Governor General and his Council in 1780 that, the treasury of Madras was empty, and that, "by the nearest computation he could make, the future disbursements at Fort St. George would rather exceed seven lakhs of rupees per month, every *cowrie* of which must come from Bengal, as he found there were no resources from which a single pagoda could be expected".(Quoted in, Banerjea, 1928, p. 84)

Table:3
Amount Received From Bengal to other Presidencies Between 1771-72 and 1780-81

Year	Amount Received From Bengal (Pounds Sterling)
1771-72	233,879
1772-73	161,932
1773-74	164,926
1774-75	340,219
1775-76	293,441
1776-77	184,022
1777-78	219,101
1778-79	181,460
1779-80	273,547
1780-81	111,738

Source: Banerjea, P, Indian Finance in the Days of The Company, Macmillan and Co. Ltd., 1928, p. 81

Therefore, it was observed that during the early phase of British expansion in India, Bengal being the main commercial centre, had to bear the major burden of carrying out civil, administrative and military expenditure of British India. After the acquisition of *Diwani* of Bengal, Bihar and Orissa in 1765, the East India Company got a firm foothold there and were not disturbed in that area by any serious warfare. They, however, undertook extensive wars of conquest in other parts of India outside Bengal. These wars had to be financed chiefly with money raised from Bengal. Therefore, cost of British conquest in different parts of India as well as in different parts of the world[10] and deficits of different Presidencies, were mainly met by the revenue extracted from Bengal. Besides, as mentioned earlier, Bengal was the worst victim of the administrative chaos created shortly after the acquisition of *Diwani* (1765). Such administrative disorder made a fertile ground for extraction of wealth from Bengal in the name of so called 'investment'. Thus it was felt that "ever since the grant of *Dewani* Bengal 'seems to have been the milch cow from which the other Presidencies drew their support'." (Sinha,1927, p. 106). Calcutta based popular magazine Hindoo Patriot also commented that Bengal "has always been treated as the milch cow for the

[10] Bengal's money was not only required for meeting other Province's deficits it was also required in meeting the expenditure incurred in Bencoolen & St. Helena and in purchasing investment. (Banerjea, P, Indian Finance in the Days of the Company, Macmillan and Co. Limited, London, 1928, p. 79)

benefit of the whole empire." (Hindoo Patriot, 11th July, 1870, quoted in Bhattacharyya, 1971. p. 266) Thus from the very early phase of British expansion in India, Bengal was burdened with other commitments that prevented Bengal's finance from being stronger and had far reaching impact on Bengal's economy in many years to come.[11]

Permanent Settlement as means of regular extraction of wealth from Bengal and the consequent effect on Bengal's finance

Bengal was first conquered by the East India Company through *Plassey* battle in 1757. Having won the war at *Plassey*, the East India Company consolidated its position in the *Buxar* war in 1764. The later part of the eighteenth century and the first half of the nineteenth century were the periods of conquest and consolidation of British power. Therefore, the main objective of the East India Company was realisation of large amount of revenue, necessary for financing wars in which the Company was engaged. These wars, as was expected, had to be financed mainly with money raised from Bengal in the form of land revenue. The excessive taxation on land in Bengal after the acquisition of *Diwani,* as we have mentioned earlier, led to a severe famine in 1770 in which at least 50% of the cultivators perished. Yet extraction of land revenue from Bengal continued and even exceeded pre-famine period. (Mookerji, 1940, p.89; see footnote 7)

However, since the severe famine of 1770, in which the population of Bengal got reduced drastically, untimely realisation of land revenue was of great concern for the Company. Simply because the number of cultivators ran in scarcity. Often *Zemindars* complained about absconding peasants

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[11]Total burden imposed on Bengal during the early days of British expansion was summarised in Marshal's (1987) study: "…..the company's interest in the resources of Bengal was being sharpened by it's own financial difficulties. The burden which Bengal was forced to bear in the early phases of British rule over India were being laid on it very early indeed. In the first place, it remained what it had been since early in the 18th century, the main centre of the Company's commercial operations. Exports of textiles and saltpetre were now to be increased, financed as far as possible from local resources, not from bullion shipped from Britain. Bengal was also called upon to finance the trade of the other Company settlements in Asia especially the purchase of tea at Canton in China. Secondly, its own army of sepoys and Europeans was being recruited and was to expand very rapidly, while huge sums were spent on the new fort at Calcutta. Finally, Bengal must support the war effort of the Company's settlements in Bombay and Madras against the French or Indian powers... The pressing demand of it's own trade, its army and needs of other settlements were to throw the finances of British Bengal into repeated crises for many years ahead". (Marshall, P.J, The New Cambridge History of India II Bengal: The British Bridgehead Eastern India 1740-1828, Cambridge University Press, Cambridge, 1987, p. 84)
Study undertaken by Banerjea (1928) also mentioned such burden borne by Bengal. The letter written in 1792 to the India House the Commander-in-Chief pointed out that, "both the army and the inhabitants, in the state in which the country then was, being maintained chiefly by supplies from Bengal". (Quoted in, Banerjea, P, Indian Finance in the Days of the Company, Macmillan and Co. Limited, London, 1928, p. 84). "They can place but little dependence on any resource but that of Bengal for carrying on the war; and as to the expenses of the civil department, they have slender hope of procuring any answer from any quarter". (Fourth Report of the Committee of Secrecy, 1782. The Select Committee wrote to the Directors in 1780 Quoted in, Banerjea, P, Indian Finance in the Days of the Company, Macmillan and Co. Limited, London, 1928, p. 84)

whenever they had to meet revenue demand which in turn made it difficult for the Company to realise regular collection of land revenue necessary for ongoing war.[12]

Since the *Diwani* the Company tried various methods of direct collection but it eventually proved ruinous. On the other hand the expenditure incurred on different schemes and other obligations of the East India Company kept on increasing.[13] Permanent Settlement was perceived as the best source of a predictable and regular source of revenue while incurring the lowest cost of collection which was again one of the most important considerations of that time. Thus there was no other alternative but to have Permanent Settlement when all other experiments had eventually failed. (Mookerji,1940, p.103)

The discussion of Provincial finance of Bengal remains incomplete without describing the far reaching impact of the Permanent Settlement on Bengal's finance, infrastructure and overall economy. In the Permanent Settlement regulation of 1793, the *Zemindars* were declared to be proprietors of the areas over which they collected the revenue subject only to the payment of the annual land revenue. The actual rent paid by the tenants at that time were made the basis of assessment, and the government demanded ten-elevenths leaving to the *Zemindars* the remaining one-eleventh as his remuneration for the trouble they took. The *Zemindars* were bitterly opposed to the new system as it proved ruinous to them while the land revenue was fixed as high as possible and was quite high for the then period. Within a few years of the settlement most of the *Zemindars* were unable to pay and were sold out for arrears. The revenue was not realised regularly and punctually due to the failure of cultivators to pay up in time.

[12] In this regard the observations made by Rothermund (1993) can be mentioned: "The population of Bengal had been decimated by the severe famine of 1770. There was a scarcity of tillers of the soil and the zaminders complained about 'absconding peasants' whenever they had to meet the British revenue demand". (Rothermund, D, An Economic History of India From Pre-Colonial Times to 1991, Routledge, London & New York, 1993, pp. 20). Kulke & Rothermund (1990) further reveals that "Since the great famine of 1770 there had been a shortage of cultivators; vagrant peasants roamed around searching for land which they could get on better terms. Zaminders were competing with each other for the services of these itinerants, and when the time came for paying the land revenue they usually complained about absconding peasants from whom they had been unable to collect anything. These complaints were sometimes mere pretexts for paying less revenue; often, however, they corresponded to the facts. In any case, the British authorities were unable to discover the facts. The Regulation of 1793 cut this Gordian knot.." (Kulke, H & Rothermund, D, A History of India, Routledge, London & New York, 1990, p. 246) Permanent Settlement of 1793 was thus considered as a solution to the problem of uncertainty in realising land revenue necessary for ongoing warfare. Thus "the permanent settlement of 1793 must be seen in the context of this dilemma of rising military expenditure and the uncertainty of revenue collection from absconding peasants." (Kulke, H & Rothermund, D, A History of India, Routledge, London & New York, 1990, p. 247) Rothermund (1993) went on to say that "Warfare in Southern India had to be financed by the company and therefore it was in dire need of a predictable revenue income. The Permanent Settlement was the best solution of the immediate problem. The zamindars now had the exclusive responsibility for meeting the revenue demand and his estate would be auctioned if he did not pay up in time".(Rothermund, D, An Economic History of India From Pre-Colonial Times to 1991, Routledge, London & New York, 1993, p. 20)

[13] For details see Mookerji, R.K, Indian Land System Ancient, Mediaeval and Modern With Special Reference to Bengal, Land Revenue Commission, Government of West Bengal, 1940, p. 103

Consequently large areas of land were periodically exposed to sale by auction for recovery of outstanding balances. Most of the older families of landlords were swept away.[14] Eventually, two measures were taken up in order to get rid of this disastrous situation. Firstly, by bringing the wasteland under cultivation[15] which had eventually paid of while all future increments of income from land was vested in *Zemindars* by the Regulation of 1793.[16]

Secondly, necessary regulations were enacted to facilitate the collection of revenue by *Zemindars* from the tenants. However, the infamous 'Haptam' (Regulation VII of 1799) placed the *Zemindars* in a position of unfair advantage as against the tenants but they proved successful in punctual realisation of the land revenue. The arrears outstanding at the end of each

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[14] The period after the Permanent Settlement in Bengal has been described in the report of the land Revenue Commission of Bengal as follows: "The period immediately after the Permanent Settlement and indeed for three or four decades was one during which the zemindars were struggling for their existence against the sale law. At that time,....was uncultivated; and the only way in which the zemindars could improve their assets was by bringing waste land under cultivation. The competition was not for land but for tenants to cultivate it. Consequently if the ryots withheld their rent, or abandoned their holdings the zemindars was hard put to it to pay a revenue amounting to ten-elevenths of his assets. The records of that period and the Fifth Report show that more than half the estates in Bengal were sold for arrears of revenue; many of the large zemindars were dismembered and most of the original zemindars reduced to poverty." (Quoted in Das Gupta, B, Provincial Taxation Under Autonomy, Geoffrey Cumberlege, Oxford University Press, London, 1948, p. 271)

[15] The country at the time of the Permanent Settlement was for the most part wholly uncultivated. There were extensive jungles but not sufficient tillers. It was the zemindars who courted peasants to undertake cultivation, enticed away tenants by offering lower terms often stipulated that there would be no rent for a certain number of years necessary in cleansing jungles and provided for their maintenance during the period of cultivation. There was no other agency than the landlords who did all this not because they had surplus money but because their very existence depended on promotion of cultivation. (Note of Dissent by Sir Bijay Chand Mahatab, Raja of Bardwaman and Mr Brajendra Kishore, Member of Land Revenue Commission, Government of Bengal, 1940, Vol. I pp. 214-215) "As regards the Zamindars' role in promoting the extension of cultivation which was according to the Commission 'one of the avowed objects of the Permanent Settlement'- the Association (Bengal landholders' Association) claimed that 'deserted Bengal (was) turned into a rich plain by landlords'. The evidence of James Mill, Holt Mackenzie and Ram Mohan Roy in 1831 was quoted to prove that cultivation had improved since 1793. the area under cultivation in 1793 in Bengal and Bihar was 31, 000, 000 acres according the Colebrooke, whereas in 1884 it was 70,000,000 acres". (Banerjee, A.C, The Agrarian System of Bengal, Vol. 2: 1793-1955, K.P Bagchi & Company, Calcutta, 1981, p. 360)

[16]*Zeminders* were to be given the benefit of any future increase in the value of the state's share which might result from the extension of cultivation or from other causes and the state promised not to make any demand for the augmentation of the public assessment in consequence of the improvement of their respective estates. In other words the state declared that it would for ever afterwards be content with the sum then assessed as the cash revenue of each estate and the property.

year greatly reduced and the sale of lands for the recovery of arrears became less frequent. The land revenue system was thus at last grounded a stable footing. The Bengal Land Revenue Commission, 1940 observed that though "Economically, the period commenced disastrously for the zemindars; but as a feeling of security developed, and large areas of jungle and waste land were brought under cultivation, the zemindar's margin of profit increased, and by the middle of the nineteenth century they were far less vulnerable to the sale law".(quoted in Das Gupta, 1948, pp. 273-274)

Gradually it was realised that while the Permanent Settlement had fully assured the immediate revenue position of the government, but certain limitations of the Permanent Settlement increasingly became apparent in course of time. Firstly, land revenue being the single most important tax during the whole 18th and 19th century and early part of the 20th century made the situation further worse. The proceeds from land revenue in total revenue of the state varied between 69.0 per cent in 1793-94 to 66.5 per cent in1850-51. Since later part of the 19th century importance of land revenue started declining. But nevertheless it accounted for 49.7 per cent of total revenue in 1861-62 and declined to 39.9 per cent in 1913-14 and then drastically reduced to 21.8 per cent during 1933-34.(Das Gupta, 1948, pp. 285-287) Thus comparative inelasticity of land revenue of Bengal on account of Permanent Settlement "..destined to prove a permanent obstacle to the growth of the state resources" (Banerjea,1930, p. 403). Furthermore, this land revenue being fixed in the Permanent Settlement and by excluding the possibility of taxing future improvements of lands, the Bengal government suffered from significant amount of loss of revenue in the later period. (Desai,1968, p. 56) In contrast *Zemindars* derived substantial benefit during the subsequent periods by appropriating the surplus generated in land through further reclamation of land. Secondly, when the expenditure of the government subsequently increased, the pressure of taxation fell heavily upon the temporarily settled land. A fixed revenue structure in Permanently Settled areas and a consequent lower burden of taxation borne by this areas compared to that of temporary settled areas resulted in not only unequal burden of taxation among different Provinces but also between Zeminders and other classes of Bengal (Misra, 1942, p. 155; Thomas,1939, p. 19) Over time in Permanently Settled Bengal, the area under cultivation was largely extended, population increased and rent became three fold. So land revenue, which was 90 per cent of the rent in 1793, became 28 per cent of the rent in 1903. (Desai, 1968, p. 54). According to the estimation of the Cess Report of the Revenue Board, the *Zemindars* obtained Rs. 16 crores approximately from the cultivators, of which government received less than 4 crores in the form of land revenue However, it was promised at the time of the Permanent Settlement that out of the total collection from land revenue, the government would receive 90 per cent and the *Zemindars* would be entitled to keep 10 per cent of the total collection. According to this arrangement, the *Zemindars'* share should have been Rs. 40 lakhs. Instead they appropriated Rs. 12 ½ crores while the cultivators actually paid 30 times more.[17] (Misra,1942, p. 155 & also see

[17] "In permanently settled province of Bengal, the land revenue, which was fixed nearly a century ago, has notoriously become a very small and often hardly appreciable burden. There is certainly no important class of persons in any civilised country in the world which

Land Revenue Policy of the Indian Government, Government of India, Calcutta, 1902, p. 67 & Mukerjee, R, Land Problems in India, Longmans,1930, p. 305)

In sum it can be said that though at the outset Permanent Settlement managed to generate considerable amount of wealth and served well to the East India Company's ambitious schemes, as time went on, the adverse impact of Permanent Settlement was felt on account of comparative inelasticity of land revenue compared to other temporary settled Provinces (particularly from the mid 19th century) (See table 4 and 5). Moreover, exclusion of the right to impose further taxes on land such as agricultural income tax, local cesses for local purposes made it altogether difficult to tax the increased income from further improvement of land.[18]The law of economy took its own course. Expenditure on infrastructure, particularly on irrigation flowed to those areas where the return was high. Therefore, inelasticity of land revenue in Bengal on account of the Permanent Settlement not only led to unequal burden of taxation among different Provinces and among different classes within Bengal but also had adverse impact on public expenditure on irrigation and other rural infrastructural development of Bengal. Thus insignificant share of public expenditure on irrigation combined with lack of Bengal's *Zemindar*s' interest to take the initiative for improving the productivity of land and rural infrastructure

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enjoys such virtual immunity from taxation as the Bengal zemindars, and Bengal, although the wealthiest, is the most lightly taxed of all the provinces of the Empire. (Strachey, Sir J & Strachey, Sir, R, The Finances and Public Works of India 1869-1881, Gian Publishing House, New Delhi, First Reprint, 1986, pp.197-198) Strachey & Strachey went on to say that "..the landlords of Bengal, the richest class in the richest province of the Empire, who now pay in taxation almost nothing and in land revenue an amount altogether inadequate". (ibid, p. 209) However, Duttt, R. P also mentioned .. "With the fall in the value of money, and the increase in the amount rack rented from the peasantry, the Government's share in the spoils, which was permanently fixed at 3 pound million, became relatively smaller and smaller; while the Zeminders' share became larger and larger. To-day the total rents in Bengal under Permanent Settlement are estimated at about 12 million pound, of which one quarter goes to the Government and three-quarters to the Zemindars. (Dutt, R.P, A Guide to the Problem of India, Victor Gollancz LTD, London, 1942, p.70)

[18] In 1860 members of the British Indian Association representing the interest of the *Zemindars* of Bengal "opposed direct taxes on the *zaminders'* income alleging infringement of the Permanent Settlement of 1793. In 1861 they urged the Government to increase salt duty- a tax which fell mainly on the poor and appeared 'least objectionable' to members of the Association: the Association hoped that higher salt revenue would enable the Government to relieve the upper income groups from the 'oppression' of income tax. In 1871 they stood in the way of local improvements with money raised by means of local cess (such as Road Cess and Education Cess) and they again invoked the Permanent Settlement". (Bhattacharyya, S, Financial Foundation of the British Raj, Indian Institute of Advanced Study, Simla, 1971 p. xxiv) This area would be discussed in detail in the subsequent paragraphs of this study.

Strachey (1911) also noticed that "The zemindars have repeatedly put forward the claim that in consequence of the permanent settlement they are entitled to exemption for ever from all taxation upon profits derived from land. In 1859 when income tax was first imposed on every kind of property throughout India, they protested that the conditions of the settlement were violated.... In 1871, and again in 1877 they demanded, on similar grounds, exemption from liability to rates imposed on land and other immovable property for local and provincial roads and public works, for sanitation, education and other local objects." (Starchey, Sir, J, India Its Administration & Progress, Macmillan and Co. Limited, London, 1911, p.461,) worsened the situation further.[19] This low level of public investment in irrigation which was undertaken with great momentum after the Mutiny (1857) gave rise to the feeling of being discriminated against or being less favoured compared to the other Provinces. In the subsequent part of this study we want to turn to the impact of Permanent Settlement on rural infrastructural development through imposition of cess on land revenue. And also on the distribution of public investment particularly in irrigation among the Provinces and as the consequent feeling of being discriminated so far Bengal Province was concerned.

Table: 4

Gross land Revenue in the Principal Provinces/Presidencies Between 1856-57 & 1870-71

(In Rs. Crores)

Provinces	1856-57	1870-71	Percentage Increase
Bengal	3.54	3.76	6
Bombay	2.15	2.95	37
Madras	3.8	4.4	16
Punjab	1.84	1.97	7
N.W. Provinces	3.92	4.13	5
Oudh	0.97	1.32	36
Central Provinces	0.57	0.6	5

Source: Bhattacharyya, S, Financial Foundations of the British Raj, Indian Institute of Advanced Study, Simla, 1971, p. 299

Table: 5

Land Revenue Per Head of Population Between 19881 and 1920

Provinces	1881			1892			1898			1913			1920		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Madras	1	7	6	1	7	2	1	9	5	1	7	3	1	7	7
Bombay	1	15	6	1	15	2	2	0	0	2	1	0	2	5	3
Sind	.....			2	12	9	2	9	1	2	9	0	2	13	3
Bengal	0	8	11	0	8	10	0	8	11	0	10	0	0	10	6
United province	1	4	10	1	5	4	1	5	5	1	5	7	1	4	11
Oudh	......			1	2	1	1	3	6	1	6	6	.....		
Punjab	1	1	4	1	4	3	1	4	10	1	15	0	2	5	0
Central Provinces	0	9	10	0	10	3	0	11	11	0	15	0	......		

[19] The loss of revenue of the government consequent upon Permanent Settlement was given away "in return for no service to the state or to the public: the zemindars are merely the receivers of rent; with rare exceptions they take little part in the improvement of the land, and until not many years ago, they bore virtually no share of the public burdens. (Strachey, Sir, J, India Its Administration & Progress, Macmillan and Co. Limited, London, 1911, p. 455) While replying to Dutt, R.C, Indian Government (1902) commented that "Mr. Dutt appeals to the munificient gifts of the Bengal zemindars to all public purposes. The Lieutenant-Governor again admits, gratefully, the princely generosity which has distinguished some of these gifts, but he can not truthfully say that he has observed among rank and file of the zemindars a greater disposition to execute improvements on their properties, or to subscribe to local needs and local charities.." (Land Revenue Policy of the Indian Government, Government of India, Calcutta, 1902, p. 69)

Assam	**0**	**11**	**7**	**0**	**12**	**7**	**1**	**2**	**3**	**1**	**3**	**0**	**1**	**5**	**0**

Source: Vakil, C. N, Financial Development in Modern India 1860-1924, 1924, pp. 372
4 pice = 1 Anna
1 Rupee = 16 Annas

Impact on Public Work due to Permanent Settlement

As we have already discussed that Permanent Settlement in Bengal until the early 19th century made collection of large amount of land revenue at regular interval, with complete certainty and incurring low cost of collection. This, helped the British Indian empire for its colonial expansion and consolidation of its rule. But paradoxically, over time land revenue in Bengal became inelastic on account of the same Permanent Settlement, which had far reaching impact on public works investment, infrastructure and buoyancy of revenue at a later period.

There was a debate, during the whole of the nineteenth century and early part of the twentieth on whether Bengal should be punished by allocating low share of public expenditure for the Permanent Settlement which was introduced in order to meet the immediate need of the time. It was alleged that Bengal had become the victim of the pragmatic scheme of the Permanent Settlement pursued by the East India Company. Thus due regard should be paid to the totality of its contribution on account of Permanent Settlement in the past rather than in-elasticity of land revenue on the later date.[20]

Since the middle of 19th century when public investment gathered its momentum, there had been a common feeling in Bengal that its share of public expenditure was quite low compared to Bengal's contribution to the country. From time to time, in relation to many occasions, such contentious issue had been brought to the fore by Bengal's academics, intellectuals, landlords and even the government officials. This issue remained the pre-dominant discourse during the whole pre-Independence period.[21]

[20] Jessore Landholders Association replied before the Land Revenue Commission while answering the question whether Permanent Settlement 'permanently crippled the resources of the country'. They opined that "All through the 15 years from 1795 to 1810 Bengal land showed a surplus (because of the certainty of land revenue) while Bombay and Madras others showed deficits". Land Revenue Commission Vol. IV, Reply by Jessore Landholder's Association, p. 19) And they went on to say that Permanent Settlement, " 'yielded the greatest amount of land revenue which was not possible by any other settlement, and by ensuring prompt realisation of the unvarying quantum of revenue, it rescued the Administration from the risk of uncertain collections and established the British Empire in India'. Bengal paid 'the expenses of ambitious wars and annexations in northern and southern India'. Between 1793 and 1837 'Madras and Bombay never paid the total cost of their own administration' " (quoted in Bannerjee, A.C, The Agrarian System of Bengal vol. 2: 1793-1955, K.P.Bagchi & Company, Calcutta, 1981, pp. 359-360)

[21] We can also recall the comment made by Dutt, R.C and Mokkerji (1940) in order to understand how some veteran intellectuals of Bengal then reacted on this ongoing debate. "It may also be pointed out that the Permanent Settlement was decided upon as the best source of certain revenue which was very much needed in its time by the Company to build up British Dominion in other parts of India. The Company had then to finance the cost of

Comments made by Mr. Grant would be relevant in this respect. In 1886, Mr. John Peter Grant, a high official of Bengal Government complained "that it was a practice handed over from the beginning of the British Empire in India to make Bengal pay much more than its share of the imperial revenue and give it back in return not a quarter of it's share of the imperial funds granted for such objects as military protection, police, roads and other public works. He found this inevitable practice still in co-operation and took the opportunity to draw notice to systematic inequalities so injurious to the province with which he was connected"[22].

Public works investment was in the stage of infancy before the Mutiny (1857). Since the mid 19th century, public works programmes were undertaken with considerable importance[23] and ushered in an era of inter-

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several wars and other measures which were forced upon them. The Rohilla war, the two campaigns against Tipoo Sultan, the prevention of the hostile Maratha demonstration against Oudh, the mission despatched to Nepal, reduction of Pondicheri all these brought the finances of the Company to a low ebb. R.C Dutt pointed out, 'in India an Empire was being acquired, wars were waged and the administration carried on at a cost of the Indian people without the British nation contributing a shilling'. And the burnt of the cost was borne by the people of Bengal upon whose resources other Provinces like Madras and Bombay had freely drawn to meet the deficits of their administration. At home at this time England was also passing through the worst days with France, Holland, Spain and Italy allied against her, the United States alienated, and national debt was mounting up. R.C Dutt further stated: 'it may be said with strict truth that the conquest of Lord Hastings, like the conquest of Lord Wellesley were made out of the resources furnished by permanently settled Bengal'." (mentioned in Mookerji, R.K, Indian Land System Ancient, Mediaeval and Modern With Special Reference to Bengal, Land Revenue Commission, Government of West Bengal, 1940, p. 94)

[22] Letter from the Government of Bengal, 4th May, 1861, quoted in Gupta, J.N, The Case for Financial Justice to Bengal, Calcutta University Press, Calcutta, 1931, pp. 50-51

[23] However, the question of unequal distribution of public work came to the fore also before the Mutiny. Although public work expenditure was rather rudimentary in the pre-Mutiny period. Yet inequity in public works expenditure among different Provinces are evident from the following table. The outlay on public works in Bengal and in Madras were much lower than revenues collected in these Provinces. Such disfavoured treatment of some Provinces as against the others was justified by the Imperial government on the plea that the favoured Provinces showed surpluses in their accounts. But the federalists pointed out that these deficits and surpluses occurred in different Provinces due to the inefficient system of account. It didn't necessarily represent the true picture. (Ambedkar, B.R, The Evolution of Provincial Finance in British India A Study in the Provincial Decentralization of Imperial Finance, P.S. King & Son, Ltd, London, 1925, pp. 32-33)

Table

Outlay on Public Works Average Per Years 1837-38 to 1845-46

Provinces	**Population**	**Area in square mile**	**Revenues collected from the Provinces in hundreds of Rs.**	**Expenditure on public works in hundreds of Rs.**	**Percentage of column 5 to column 4**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Bengal	**40,000,000**	**1,65,443**	**10,239,500**	**1,79,812**	**1.75**
N.W.P	**23,200,000**	**71,985**	**5,699,200**	**1,41,450**	**2.48**
Madras	**22,000,000**	**1,45,000**	**5,069,500**	**30,300**	**0.59**

Provincial jealousy resulting from uneven regional distribution of public works investments. "The Bengal's journals (Friend of India, 1863) for instance, complained that Bombay and Madras were given preferential treatment while 'the wealthiest of the Presidencies (Bengal) is too much near the candle to receive its due share of light'."[24]

Meanwhile, the idea of decentralisation came to the fore with the initiative of Lord Mayo in 1871. Decentralisation was welcomed by the federalists in Bengal as well as in other Provinces on consideration that it would minimise the iniquitous distribution of revenue burden borne by different Provinces and would reduce the distribution of uneveness in public works investment among the Provinces. Decentralisation was also welcomed by the Hindoo Patriot-(1870), a Calcutta based Journal, which "believed that Bengal was being made to pay more than its fare share for imperial purposes".[25]

What, however, remains to be seen is, whether unequal distribution of public works expenditure was the result of any favouritism to particular Province/Provinces at the cost of others or such an inequality was the outcome of some pragmatic considerations regarding public works investment in British India. Therefore, due attention should be paid on brief discussion on the history of public works in order to understand why some Provinces were favoured than others and under which circumstances.

Before 1858, Public Works Secretariat of the Government of India did exist but the progress of public works was rather slow (table 6). During this time public works was chiefly undertaken for military purposes. Thus for a long time construction of military barracks was the prime concern for the British Indian government. Construction of road proceeded slowly, irrigation made little progress except in Madras and the North Western Provinces (NWP) and railway construction was progressing even at slower pace. In 1857 there was hardly 300 miles of railway tracks in India. Though the need of developed communication and irrigation was felt by the East India Company but it was reluctant to undertake public works programmes that involved large monetary expenditure. At that time any large scheme of public works had to be financed by loans but loans were generally raised for extraordinary calamities or war under the Company's rule. (Thomas,1939, p. 108)

Table: 6
Progress of Public Works in British India Between 1842-43 and 1882-83

Year	Expenditure on Public Works Pound (millions)	Total Expenditure Pound (millions)	Proportion of (1) to (2)
	(1)	(2)	(3)
1842-43	00 .19	21.43	00.96

Source: Ambedkar, B.R, The Evolution of Provincial Finance In British India, P.S King & Son, Ltd, London, 1925, p. 32

[24] Fried of India, 24th September, 1863; quoted in Bhattacharayya, S, Financial Foundation of British Raj, Indian Institute of Advanced Study, Simla, 1971, p. 267)
[25] Hindoo Patriot 11th July, 1870 quoted in Bhattacharyya, 1971, p. 266

1852-53	**00.63**	**25.27**	**2.53**
1862-63	**4.40**	**37.75**	**11.58**
1872-73	**12.52**	**56.87**	**21.96**
1882-83	**23.71**	**73.09**	**32.48**

Source: Thomas P.J, The Growth of Federal Finance in India, Oxford University Press, London, 1939 p. 120

After prolonged neglect, public work was pushed forward amidst two interesting development of the mid 19th century. One was the 'occurrence of 1857' after which systematic improvement of communication was earnestly taken up. Other one was the "expansion of commercial agriculture and the growth of plantation resulting from the rapid increase in the demand for Indian primary products in the growing industrial areas of Europe impressed the Government with the need for the extension of roads, railways and irrigation works. The cotton-grower of Bombay and Berar, the jute grower of Bengal and the tea-planter of Assam were badly in need of roads, and this demand forced its attention upon the Government." (Thomas,1939, pp.108-109) Consequently construction of strategic rail communication and roads were taken up. We will turn to this area later.

Another important consideration which placed severe strain on government's finance during the whole of 19th century was frequent outbreak of famine in different parts of India resulting in huge loss of land revenue. Famine relief had to be provided by the government of India to the famine-stricken areas despite the loss of revenue. Thus, huge loss of revenue consequent upon famine coupled with expenditure incurred on famine relief put considerable strain on Imperial government's purse. An attempt was taken to localise (to make the Provinces to share famine's relief) the famine fund. Subsequently, it was felt that more effective measure against famine would be expansion of irrigation and improved communication. The Famine Commission of 1879 urged upon the government the imperative need for extending railways and irrigation for protecting the country against famine. Though the urgent need for the extension of railways and irrigation was felt, the government was always reluctant to borrow money for such purposes. Private companies instead were entrusted with this work on a guarantee basis. Evidently due emphasis was placed on the self-supporting public works which would ensure return. Non-remunerative public works were strongly discouraged and selection of public works were chosen in such a manner that should not incur any loss. However, railways, irrigation and civil works (i.e., roads and buildings) constituted the major bulk of the gross public investment of which railways and irrigation together accounted for more than half of the total. It should be noted that while investment in roads and buildings was more or less evenly distributed among the different Provinces, distribution of the public work investment in railways and irrigation among different Provinces was grossly uneven. Which was mainly determined in accordance with the need of the market and profitability of the British industries. [26]

26 The Study undertaken by Thavaraj (1955) concluded that the uneven development of different regions in India could partly be attributed to the uneven distribution of the investment in railways and irrigation in the period 1897-98 to 1913-14. However, the public investment during 1898-1914 was concentrated in the North Western and North Eastern

However, Bengal was one of the lowest recipients of irrigation fund particularly during the whole pre-Independence period. There were three main constraints regarding receiving funds for irrigation. Firstly, irrigation always had to compete for funds with railways. Railways was given preferential treatment than irrigation in spite of the fact that irrigation gave more positive return than railways even after allowing unproductive and protective irrigation works. (Bagchi, 1972, pp.40-41)

Secondly, before the recommendation of the Irrigation Commission (1900), non-remunerative, i.e., protective irrigation work was not encouraged.[27] Inelasticity in land revenue coupled with difficulties of imposition of further taxation on land resulted in low rate of return from irrigation in Bengal than in other Provinces (table 7). Since the decentralisation scheme pursued by Lord Mayo (1871), local governments were strongly encouraged to raise funds necessary for investment in irrigation. Consequently the financial power of the Provincial government was widened in order to cope with this situation.[28] In Bengal, as mentioned earlier, the state was debarred from imposing further taxes on land for meeting the expenditure incurred not only on irrigation. As a matter of fact, it was always of great difficulty to impose

regions, the former having a larger share in the investment on irrigation and the later having a larger share in the investment on railways. (Thavaraj, M.K, Public Investment in India, 1898-1914: Some Features, Indian Economic Review, Vol. II, 1955, p. 43) North Western region served well so far as production of raw cotton was concerned and North Eastern region produced commercial agricultural crops such as jute and coal bulk of which either got exported or absorbed in for export based industries. And also extraction and transportation of coal from this region was felt necessary for the industries and railways. “This meant” as far public investment in the British was concerned, “an emphasis on the Northern plains and the north eastern frontier and a neglect of the South and of the interior of India in general”. (Kulke, H & Rothermund, D, A History of India, Routledge London, 1990, p. 269)

[27] The government had been very reluctant to spend money on any works other than ‘productive’ works. Productive works were defined as those which would meet the working expenses, as well as the interest charges on the accumulated capital, within ten years of their initiation. (Bagchi, A, Private Investment In India 1900-1939, Cambridge University Press, 1972, p. 41)

[28] The idea prevailing during Lord Mayo’s period was that since the benefit from irrigation is limited in a particular area, it is fair to localise responsibility in regard to that. Contrary to that the benefit from railway, as Lord Mayo said, transcend the geographical boundary of Provinces and benefit of which is not mainly localised i.e., that can be of the main responsibility of the Imperial government. Consequently, it was strongly encouraged that the burden of raising fund for irrigation should be taken by the Provincial government without placing burden on Imperial revenue. He further said that every Province should pay for it’s local enrichment for it’s irrigation schemes and it is not expected that one Province would pay for others. That is why, Provincial power of undertaking and maintenance of irrigation schemes and raising funds through further taxation was enlarged as part of decentralisation scheme pursued in 1871. (Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, London,1939, pp. 114-115)

taxation further on land be it for meeting the expenditure on irrigation or for improving the local sanitation, road and education for all these had always stood in the way of investment for productive irrigation. Evidently, until 19th century (and even after that period) when non-remunerative (protective) irrigation was not encouraged, Bengal received less share than that of other Provinces.

Finally, owing to Permanent Settlement it was promised that any future increment of income from land (say as a result of irrigation) in the permanently settled areas would be appropriated by the *Zemindars*[29]. It might be worth recalling in this context that the comment made by Mr. (afterwards Sir, William) Muir, Senior Member of the Board of Revenue, North Western Provinces. While discussing the merits and demerits of Permanent Settlement, one of the major defects of the Permanent Settlement, he commented, "....increase of revenue from future extension of agriculture would be relinquished, especially in the case of Government irrigation works." (Quoted in Banerjea,1930, p. 417) This comment might be an answer of the frequently raised question why expansion of irrigation in Bengal until the late 19th century did not take place as it happened in the temporarily settled areas where land revenue was subject to periodical revision. Another consideration which might have been partly responsible for not giving preferential treatment to Bengal on the irrigation front was that Bengal was considered as the Province of abundant rainfall hence meriting low as far need of irrigation is concerned.[30]

However, it is evidenced from table 7 that the return on the investment on irrigation was quite low on account of the fact that per head land revenue was the lowest in Bengal. Since the investment in irrigation and return from land revenue of the particular region was positively related thus total irrigated area in Bengal was much less than other Province. As we have earlier observed that all public works were carried out mainly from loans and it was naturally felt that money should be spent where the return is certain.

Table: 7

Return on Irrigation Investment of Different Provinces in 1879-80

(In Pounds)

Province	Capital	Net Revenue	Interest at 4 ½	Surplus/Return

[29] It is to be noted that whereas in Bengal the area irrigated by Government works was only 99, 535 acres in 1925-26 in the Punjab the irrigated area increased from 2.3 million acres in 1887-88 to an average of 10.4 million acres during 1921-26. Gupta (1931) went on to say that " A consideration which in all probability prevented a proper examination of the needs of Bengal in this matter is the existence of the Permanent Settlement in Bengal by which the revenue of the State from land is fixed permanently and the state is debarred from claiming any portion of the increased income of the cultivators, which suitable irrigation schemes may help to produce. " (Gupta, J.N, The Case for Financial Justice to Bengal, Calcutta University Press, 1931, p. 69)

[30] "As regards irrigation there is a general impression that on account of her fairly copious rainfall this province is not in need of any important irrigation works like Southern and Northern India". (Gupta, J. N, The Case for Financial Justice to Bengal, Calcutta University Press, 1931, p. 65)

			per cent	(Net Revenue—Interest Charges)
Bengal	**4,980,000**	**18,000**	**220,000**	**Nil**
North-West Provinces	**5,346,000**	**269,000**	**237,000**	**32,000**
Punjab	**3,544,000**	**170,000**	**155,000**	**15,000**
Madras	**1,720,000**	**427,000**	**77,000**	**350,000**
Bombay	**1,333,000**	**10,000**	**59,000**	**Nil**
Total	**16,933,000**	**894,000**	**748,000**	**146,000**

Source: Strachey, J & Strachey R, The Finances and Public Works of India, 1869-1881, Gian Publishing House, New Delhi, 1986, p. 106

The expansion of irrigation in Bengal and return on such investment in different Provinces was also evident from table 8 which was given by the Famine Commission, 1880. Afterwards the Irrigation Commission 1900-01 reviewed the whole progress made in expansion of irrigation and estimated the financial and other results (table 9). These figures are self explanatory and probably do not need further elaboration.

Thavaraj (1955) also revealed that while by the end of the 1897-98 the share of Bengal, Central Provinces (CP) and North Western Frontier Provinces (NWFP) taken together was about 31 per cent of the total investment on irrigation, Punjab the largest recipient of investment on irrigation alone accounted for 25 per cent. (Thavaraj,1955, p. 41). In the subsequent decades Punjab continued to attract larger share of irrigation investment i.e., about 50 per cent of the gross investment in irrigation was made in the Punjab alone during 1898-1914, while Bengal, Central Provinces (CP) and North Western Frontier Provinces (NWFP) together accounted for only 12 per cent of the total share. Large investment in irrigation in Punjab Province was, however, matched by huge returns from these irrigation schemes to the state. (Thavaraj, 1955, p. 45) (table 10)

Table: 8
Expansion of Irrigation in Bengal Compared to Other Provinces in 1880

Provinces	Area Ordinarily Cultivated (Acres)	Area Ordinarily Irrigated (Acres)	Percentage of Irrigation to Cultivation
Punjab	**21,000,000**	**5,500,000**	**26.2**
NWP & Oudh	**36,000,000**	**11,500,000**	**32**
Bengal	**54,500,000**	**1,000,000**	**1.8**
Central Provinces	**15,500,000**	**770,000**	**5**
Behar	**6,500,000**	**100,000**	**1.5**
Bombay	**24,500,000**	**450,000**	**1.8**
Sindh	**2,250,000**	**1,800,000**	**80**
Madras	**32,000,000**	**7,300,000**	**23**
Mysore	**5,000,000**	**800,000**	**16**
Total	**197,250,000**	**29,220,000**	**14.8**

Source: Report of the Indian Famine Commission, 1880, p. 86

Table: 9
Return on Irrigation in Different Provinces in 1900-01

Province	Number of	Capital Outlay	Percentage of	Average per acre

	Works	(In lakhs Rs.)	net revenue on capital outlay	Value of crops (Rs.)	Revenue assessed (Rs.)
Punjab	**7**	**10,73.0**	**10.5**	**27.5**	**3.4**
Sind	**5**	**1,79.3**	**7.7**	**15.6**	**1.9**
Bombay	**9**	**1,87.6**	**1.2**	**77.2**	**4.8**
Madras	**9**	**7,29.6**	**8.5**	**36.7**	**4.1**
Bengal	**3**	**6,16.8**	**0.8**	**34.4**	**1.9**
United Provinces	**6**	**8,77.4**	**7.3**	**39.2**	**4.3**
Total	**39**	**36,63.7**	**7.1**	**31.6**	**3.4**

Source: Report of the Irrigation Commission (1901-03) Vol. I, pp. 21, also see Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, London, 1939, p. 253

Table: 10
Percentage Distribution of Investment in Irrigation Between 1898 & 1914 in Different Provinces

Year	UP	Punjab	Bombay	Madras & Orissa	CP, NWFP & Bengal	Total
As at the end of 1897-98	**24**	**25**	**8**	**13**	**31**	**100****
During the Period 1898-1914	**7**	**50**	**11**	**20**	**12**	**100**

Source: Thavaraj, M.K, 'Public Investment in India, 1898-1914 Some Features', Indian Economic Review, Vol. II, 1955, pp.41
**** the percentage share of different Provinces together added up to 101 instead of 100. It was written following the author.**

However, we can again recall the controversy in relation to Bengal's low share of irrigation investment as to how far Bengal should be victimised on account of the Permanent Settlement. The controversy was centred around whether Bengal would be treated at par and given back its due share on the basis of what it contributed in the past or the share of investment on irrigation in Bengal should be based on the present rate of return from such investment in this Province. It should be noted that in a letter dated the 4th May 1861, a government official observed, " His Excellency in Council observes that it is undoubtedly true that Bengal has not received its due share of imperial expenditure, ...On the other hand, the people of Bengal are certainly not the most heavily taxed in India". Also noteworthy is the comment made by Mr. Fobes who was the member for Madras in the Indian Legislative Council on 3rd May 1861, "when Mr. Grant (Lieutenant Governor of Bengal) complains that lower Bengal does not receive it's fair share of public works expenditure, I think he leaves too much out of the consideration that the *permanent settlement has deprived the Government of the inducement to expend money in these provinces as they would receive no direct return for their outlay;* and although the indirect return would be inducement enough if they could do no better, it is not surprising that they prefer to expend capital in those parts of the Empire where the return is both direct and indirect."(Quoted in Gupta, 1931, pp. 57-58)

The interest groups in Bengal including the then Bengal government argued that Bengal's contribution should be understood on the basis of its past contribution on account of Permanent Settlement. Thus while considering distribution of public investment particularly on irrigation among different Provinces the total contribution of a particular Province needs to be taken into account rather than the present return on the irrigation investment incurred which may be low for its comparative in-elasticity of land revenue. Therefore, Bengal should be repaid on the basis of its enormous contribution it made in the early days of British settlement instead of its present contribution to the imperial exchequer. Sir Peter Grant, the then Lieutenant Governor, made a reply to Mr. Fobes by saying: "I hope it is not intended to maintain a principle of allotment between the several Governments of the portion of the general imperial revenues appropriated to imperial public works which is really tantamount to unduly taxing the most important part of the Empire for the undue advantage of less important parts by reference to the permanent settlement. Whatever discussion may be raised concerning the settlement in other respects, it's wonderful financial success is beyond all question. The settlement as a whole was a very heavy assessment at the time. *Let the percentage of increase the gross revenue of Bengal from all sources now as compared with that in 1790* shews, *be compared with the corresponding percentage in Madras before saying that Bengal works are not to be allowed their share of Bengal revenue, because Government cant increase the Bengal land tax"* (quoted in Gupta, 1931, pp. 58-59)

We can now turn to the question of public expenditure on railways and the uneven distribution among different Provinces. So far as public expenditure on railways was concerned, British India was mainly guided by a different kind of pragmatism besides considering it as a preventive measure against famine. It has already been mentioned that growing demand for Indian primary products in the industrial bases of England necessitated construction of railways in British India. It was found that a more rapid extension of railways in India was required for boosting the export of agricultural raw material from key areas of British India to the industries of England. Further, American Civil War (1861-65) interrupted the supply of American cotton to British mills and thus created a sudden hike in the demand for Indian cotton. Different interest groups related to these particular industries urged upon taking necessary steps to build railways in India, particularly from Bombay to the key cotton growing areas. The location of railways was chosen by strategic considerations of securing the best sources of raw materials. Consequently, "The small town of Solapur in Southern Maharastra had been reached by the railway in 1860 and it had then remained the railhead for about two decades. It emerged as a major centre of the raw cotton trade just at the time of the American Civil War" (Rothermund, 2004, Forthcoming). Therefore, Bombay presidency, the main supplier of raw cotton received preferential treatment in order to build up 'cotton roads' and received about 24 per cent of the total ordinary public work investment compared to 17 per cent in Bengal presidency and 13.9 per cent in Madras during the period 1864-66.[31](Bhattacharyya, 1971, p.

[31] The Study undertaken by Thavaraj (1955) also pointed out that at the end of 1897-98 Bombay Baroda & Central India (B.B & C.I) received the second largest share of railways

267) (table 11) It was alleged that during the second half of the 19th century, particularly during 1862-72 Bombay continued to receive more fund than other Provinces which could be evident from the table 11. Average annual public works expenditure per square mile in 1863-72 remained very high in Bombay (Rs. 79) and NWP (Rs.79) compared to Bengal (Rs.34) and Madras (Rs.45). Again public works expenditure (ordinary) in 1871-72 per head of population was Re. O.53 in Bombay and a meagre Re.0.1 in Madras and Bengal[32].

Table: 11

Public Works (Ordinary) Expenditure in the Principal Provinces as Percentage of the Total in India Between 1864-66 and 1871-72

Provinces	**1864-66 %**	**1867-69 %**	**1870-72 %**	**1871-72 Expenditure on public works (ordinary) per head of populations (Rs.)**	**Average annual public works expenditure per square mile in 1863-72 (Rs.) @**
Bengal	**17**	**15.7**	**16.8**	**0.103**	**34**
N.W. Provinces	**12.9**	**13.3**	**13.5**	**0.19**	**79**
Punjab	**11.9**	**14.2**	**13.3**	**.34**	**-**
Madras	**13.9**	**13.8**	**12.2**	**.106**	**45**
Bombay	**24**	**20.4**	**18.4**	**.53**	**79**

Source: Bhattacharyya, S, Financial Foundations of the British Raj, Indian Institute of Advanced Study, Simla, 1971, p. 311
@ Ibid. p. 267

Another international development escalated the demand for jute of Bengal and consequently put this region in a position to receive a larger share of railways investment. The Crimean war (1854) in Russia interrupted the supply of raw jute to the industries of Scotland. The demand for raw jute of Bengal suddenly increased and subsequently it was found that setting up jute industry in Bengal was more convenient and profitable than exporting raw jute to the jute manufacturing industries located in Scotland.[33] In 1858

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investment 16 per cent as against 31 per cent received by North Western Provinces-the largest recipient of the railways investment for military lines because of the ongoing warfare in this region. (Thavaraj, M.K, Public Investment in India 1898-1914: Some Features, Indian Economic Review, Vol. II, 1955)

[32] However, it appears that the rapid economic development in the city of Bombay was also partly responsible for giving preferential treatment to Bombay Presidency in the distribution of public works investment. While giving evidence before the Decentralisation Commission, Sir Herbert Risley raised the point that Bombay's standard of administration is above the normal standard which necessitated comparatively higher Provincial expenditure per 1000 population (excepting Burma). And also Provincial expenditure per square mile in Bombay was the highest. (Minutes of Evidence Taken Before the Royal Commission upon Decentralisation, Government of India, Vol. X,1908, pp. 170 & 259)

[33] **"....The blow which Crimean War dealt to the export of Russian hemp suddenly propelled Indian jute into the limelight. However, when Russian hemp became scarce, Scottish traders started supplying raw jute to the infant industry of Dundee in Scotland. They soon realised that setting up jute mills in Calcutta would be more profitable, the more so as the export of Indian produce increased and jute textiles were in demand as packing material. It would be rather circuitous to ship raw jute to Dundee and then jute bags back to Calcutta." (Rrothermund, D, "The**

the first jute mill was established in Bengal and in subsequent decades jute industries made rapid progress in Bengal. Since that time on Calcutta became the centre of export-based jute manufacturing industry. Along with jute industries, extraction and transportation of coal, required for railways and other industries and tea manufacturing too emerged as one of the main important commercial activities in greater Bengal. Such developments also put Bengal in a position to receive preferential treatment as far as public works investment i.e., construction of railways was concerned. However, between the late 19th century and the early part of 20th century public expenditure in railways made substantial shift from military lines to commercial lines. Throughout the first half of 19th century, different wars in which British India was engaged, necessitated large investment in strategic military railway lines in the North Western Frontier. But later on when peace was restored to certain extent, investment on railways work was shifted to eastern region to promote newly emerged commercial activities.[34]

The study undertaken by Thavaraj (1955) concluded that towards the end of 1897-98 “the Afghan wars, the Burmese wars, and the fear of a Russian invasion,... necessitated large scale investment on strategic lines. But even though the Afghan war continued during the period under study, (1898-1914) the requirements of such security lines diminished; and comparative peace in the Eastern Frontier and in Burma also resulted in a decline in investment of such lines. The lines which assumed greater importance during the period were the E. Indian, E. Bengal and GIP systems.” (Thavaraj 1955, p. 42) The table 12 below indicates a shift of emphasis from military lines to commercial lines with greater Bengal as a emerging important commercial centre. Therefore, while at the beginning of the period, (as at the end of 1898) North-Western railway Rajputana-Malwa (later on absorbed in the Bombay Baroda & Central India) and the Burma railways together shared more than 53 per cent of railways investment, their share during the period (1898-1914) was only about 33 per cent of the gross investment in railways. And on the other hand EI, E. Bengal, Assam Bengal and GIP system together accounted for 46.9 per cent of total railway investment during 1898-1914.

Industrialisation of India”, in Chowdhury, B (ed.) Economic history of India 18th to 20th Century, Centre for Studies in Civilisation, New Delhi, 2004, forthcoming)

[34]Thavaraj (1955) revealed, “... the heavy investment in railways in the North-Eastern region was providing external economies to the newly developing industries in that region by providing cheap transport and by opening up the internal markets and by opening up the internal markets. Here, investment in railways was complementary to the private investment undertaken in the industrial sector. The Eastern Bengal Railway strengthened the competitive power of the jute industries in Calcutta against Dundee by reducing the cost of transporting its raw materials. The tea gardens of Assam and North Bengal also received stimulus by the cheap transport provided by the Assam Bengal and the E. Bengal Railways. Mining industries, particularly coal industry, made record and uninterrupted progress due to the development of transport. Previously the prohibitive costs of transport had deprived the coal industry of it s Indian markets. But the development of railways gave an enormous impetus to the industry, not only by itself consuming nearly one third of the total production of coal in India but also by enabling other Indian industries to give up foreign coal in favour of the indigenous coal. “ (Thavaraj, M.K, Public Investment in India 1898-1914: Some Features, Indian Economic Review, Vol. II, 1955, p. 43)

Table: 12

Percentage Distribution of Investment in Railways During the end of 1897-98 & During the Between 1898 and 1914

Year	NW	EI	Assam Bengal	E. Bengal	Tirhoot	Oudh Rohil-khund	SI	BB &CI	MSM	GIP	Bur-ma	Total
As at the end of 1897-98	31.0	14.2	2.1	7.5	2.0	9.8	5.6	16.0	5.7	-	6.0	100.00
During the Period 1898-1914	23.5	19.0	4.3	11.0	3.3	8.9	5.4	8.5	2.8	12.6	1.2	100.00

Source: Thavraj, M.K, 'Public Investment in India, 1898-1914 Some Features', p.41
NW= North Western Railway; EI = East Indian; E. Bengal = Eastern Bengal;
SI = South Indian; BB & CI= Bombay Baroda & Central India; GIP= ? .., MSM= ?

In sum it can be said that there is no distinct observation of discriminating one Province/Provinces against others. Some Provinces were given more fund than others in order to meet some exigencies from time to time when situations demanded. Bengal, due to its structural limitation of raising additional land revenue and low level of return on the investment in irrigation failed to attract higher sum of irrigation investment compared to other Provinces. But on the other hand due importance was given to public works investment in railways for the eastern Indian regions in accordance with the immediate need felt during that time. It is quite evident that public investment was incurred in order to meet the immediate interest of either British industries or British administration for expansion and consolidation of their rule. British India failed to provide any systematic, long term and planned public works investment programmes for attaining balanced development. Such situation prevented the Provinces in general from receiving the fruits of public investment in an equitable manner.

Permanent Settlement, cess on land for local purposes in Bengal

The idea of developing local cess for local purposes came up with the decentralisation scheme introduced by Lord Mayo in 1871. Such local cess was said to be imposed on land for local infra-structural improvement. However, that the local wants should be met by local resources had been the idea of Indian financiers during the entire period of British India. From time to time Provincial governments were informed that in future grant for public works would be further reduced. It therefore became a matter of very urgent necessity to raise local funds necessary for the local development such as maintenance of the existing Provincial and district roads. Thus fresh local taxation became necessary. (Ambedkar, 1925, pp. 55-56) Many local governments started taking the initiative to begin to develop their local resources. Considerable progress was made in local self government since

1860. Consequently, local rates and cesses started being imposed but the progress made varied from Province to Province. Of all Provinces, Bombay made much greater advance in expanding local resources than other Provinces. (Thomas,1939, p.189)

In Bengal imposition of new cesses for local purposes were under consideration for some time. Lord Lawrence's government in 1867 and 1868 recommended that a cess voluntary and otherwise should be imposed on land in Bengal for roads and rural education. Strong protest was raised from different sections of Bengal against the imposition of the proposed cess on the land revenue referring to the promise made at the time of Permanent Settlement in 1793. It was, however, long held to be questionable whether the terms of the Permanent Settlement precluded the right of imposition of cesses or rates on the land revenue in order to provide means of extending elementary education and of making and maintaining roads. (Dodwell, 1958, p. 32) "The Government of India allege that the language of the Permanent Settlement itself, in section vii. of Lord Cornwallis's Proclamation, is large enough to enable them to impose the taxes in question; but this argument on close examination proves so utterly unsound that the Secretary of State abandons it". (Dutt, R.C, The Economic History of India in the Victorian Age, London, 1956, p. 391)

Lastly, It was under Lord Mayo's government that the question came up for final consideration. The *Zemindars* protested against that strongly and they referred to the distinct and solemn promises of Permanent Settlement of 1793 when Lord Cornowalis had mentioned that the rate then assessed on their lands was 'irrevocably fixed for ever', and they should in all future time be free from 'any further demand for rent, tribute or any other arbitrary exaction whatever'. (Dutt,1956, p. 396) As a consequence, an education cess proposed by Lord Lawrence in 1868 could not be imposed on Land in Bengal. But a Road Cess of 3 1/8 per cent on the rental was imposed in 1871 (Dutt,1956, pp. 396-397).

Interestingly enough, imposition of road cess on the rental was the outcome of another pragmatic consideration. Inefficient estate management and the absence of settlement operation of Permanently Settled areas created the condition where land was rarely properly surveyed. Such situation had provided for considerable degree of latitude for both landlords and tenants. Thus most landlords hardly cared about the rent rate rather preferred to levy irregular cesses of some kind or the other. On the other hand tenants also used to keep landlords in the dark. Having taken his charge of Bengal, George Campbell, wanted to ease these difficult situation by imposing road cess i.e., subject landlord's rent rolls to official scrutiny. (Rothermund, 1978, pp. 98-101) However, the proceeds of this road cess went into the coffers of the District Committee. Evidently such imposition of road cess faced stiff opposition like previous attempts from the *Zemindars* and the then intellectuals of Bengal.[35]

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[35] The discontent about the 'Road Cess Act of 1871'. (Bengal District Road Cess Act of 1871) was evidenced from the comment made by Sri Bipin Chandra Pal "when the Road cess was first introduced in Bengal, it was regarded by the people of the provinces as a practical violation of the Permanent Settlement obtaining in that part of the country. It was a

In Bengal, it was always of great difficulty to impose local cesses for local purposes. But such local cess including education cess had already been imposed in other parts of India namely Bombay, Madras North Western Provinces (NWP). Memorandum on Local Taxation in Bengal,1890 revealed that "Bengal is at present almost the only important Province in India in which there exists no direct connection between local rates and primary education.... It will thus be seen that all the Provinces in India except Bengal are subjected to local taxation for educational purposes. In Northern India (with the exception of Bengal) the proceeds from local rates are merged together, and a portion of them is then allotted for expenditure on education. Bombay is the only Province in India in which education is declared by statutory rules to be entitled to a minimum share of local fund revenue, although by executive order the same result is attained in other Provinces, such as Madras, the Punjab, Burmah and Assam". (Memorandum on Local Taxation in Bengal, Government of India,1890, pp.14-17)

An attempt has been made to compare the per capita burden of taxation (Provincial, local and municipal taxes taken together) of different Provinces as extracted from the Report of the Administration of Bengal 1872-73. It will be seen from the above table 13 & 14 that in Bengal per head burden of Provincial local and municipal taxation taken together (table 13) and local taxation other than municipal (table 14) was much lighter than in any other Provinces in British India in 1872-73. However, the number of local cesses and rates was also only one in Bengal namely Road cess in 1870. (later on Public work Cess, 1877 was imposed). But in all other Provinces rates were levied for educational and other general purposes. None of them was levied in Bengal. The whole road cess funds are not sufficient for the purposes for which they were originally assigned. It was disturbing that the Districts Boards in Bengal were severely starved. The funds and assets at the disposal of the District Board were altogether inadequate to meet the responsibilities entrusted to them. (Memorandum on Local Taxation in Bengal, Government of India, 1890, p.27) Municipal taxation was also quite low in Bengal compared to other Provinces[36].(Ibid. p. 30)

Table: 13
Local Taxation in Different Provinces in 1872-73

cess imposed upon land and according to the terms of the Permanent Settlement the Government had given an undertaking that no further tax would be imposed upon the land." (Pal, B.C, 'Swadeshi and Samaj', p. 184; quoted in Mukerjee, S.K, Local Self-Government In West Bengal, Dasgupta & Co. Pvt. Ltd, Calcutta, 1974, p. 15)

[36] The following table shows that Bengal is among the lowest municipal tax paying Province.

Municipal Taxation in Different Provinces 1886-87

Provinces	Rs.	A.	P.
Bombay	1	4	5
Punjab	1	2	6
Bengal	0	12	4
Madras	0	11	11
North-Western Provinces	0	11	1

Source: Memorandum on Local Taxation in
Bengal, Government of India, 1890, p. 30

Provinces	Total Population	Total Income From Provincial, Local and Municipal Taxation (Rs.)	Incidence of Total Provincial, Local and Municipal Taxation Per Head of the Population		
			Rs.	A.	P.
Bengal	**64,000,000**	**30,12,369**	**0**	**0**	**9**
Madras	31,000,000	69,03,614	0	3	6 1/2
Bombay	13,250,000	41,17,129	0	4	10
NWP	31,500,000	85,93,555	0	4	4 1/2
Punjab	19,500,000	69,29,473	0	5	6
Oudh	11,500,000	13,51,032	0	1	10 1/4
CP	8,250,000	14,77,023	0	2	9

Source: Administration of Bengal, 1872-73, p. 342

Table: 14
Local Taxation of Different Provinces other than Municipal Taxation in 1872-73

Provinces	Population	Local Taxation other than Municipal for 1873-74 (Rs.)	Per Head Incidence		
			Rs.	A.	P.
Bengal	**64,000,000**	**17,13,875**	**0**	**0**	**5**
Madras	31,000,000	58,89,600	0	3	0
Bombay	13,250,000	27,33,868	0	3	3
NWP	31,500,000	66,43,421	0	3	4
Punjab	19,500,000	51,25,921	0	4	2

Source: Administration of Bengal 1872-73, p. 347

However, it was suggested that if in any Province additional taxation is justifiable it is in Bengal[37] where not only does the land revenue, by virtue of the Permanent Settlement, bear a much lower ratio than elsewhere, the

[37] Government of Bengal made its position clear about the provincial grant for local purposes to District Board. Though certain amount of grant was still being provided but in the course of time it was expected that local government would take necessary steps to be self sufficient. In nutshell the message was clear: henceforth local infra-structural development is going to be entrusted with the District Board. Necessary fund should be raised from local sources and if such fund is inadequate they should take recourse to additional taxation. There is an urgent need for developing their own resources which is impossible without additional taxation. It was said, "a minimum rate is proposed as compulsory cess, but the power of raising additional funds required over and above this for general purposes will rest with the Boards at their discretion. The responsibility of local administration is not only transferred from the shoulders of Government to District Boards, but it is now proposed that the responsibility for the provision of further funds for the administration of all departments and charges for which specific funds have not been assigned should also be delegated. In this way the Local Self-Government agencies in Bengal will be vested with real power for the fulfilment of their work". (Memorandum on Local Taxation in Bengal, Government of India,1890, p.20)

incidence of local and Provincial rates on the land too is considerably lower than any other Province leading to an unequal burden of taxation among different Provinces of British India. (Memorandum on Local Taxation in Bengal, Government of India,1890, p.19) Besides creating an unequal burden of taxation among different Provinces, portion of the burden of all local cess imposed on land passed onto the poor cultivators by *Zemindars.* (Strachey & Starchey,1986, p. 209)

Following the outbreak of famine in Bengal in 1874 construction of railway and irrigation was considered as anti-famine measures. It was estimated that in Lower Bengal the capital outlay incurred by the government on canals and railways in operation or under construction would be at least 8,000,000 pound. Subsequently, it was decided to impose public work cess on land to enable the Provincial government to discharge the interest on that capital expended on these works and to meet similar obligations in the future. (Strachey & Strachey,1986, p. 157)

In 1877, a Public Works Cess for Provincial purpose was imposed.[38] *Zemindars* of Bengal again protested against the proposal of imposition of new Public Work Cess. The well known Bengal publicist Kristodas Pal, attacked the bill on the same ground, as was mentioned before, that it was an act of violation of the principle of Permanent Settlement and so was unfair to Bengal's *Zemindars.* Furthermore, he said that taxation in Bengal

38 "The provincial Public Work Cess imposed in 1877 is not a local cess in any way, although for purposes of administrative convenience it is realised with, and in the same manner as, road cess. This tax is provincial as its name implies. It is neither locally expended nor locally administered. In section 2, Act II (B.C) of 1877, it was declared that the public work cess is 'to be applied to the construction charges and maintenance of provincial public works.' From one point of view this cess may be considered as portion of the famine taxation imposed by Lord Lytton's Government on the people of India... But from another point of view, the provincial public work cess must be considered as a further development of the system of provincial finance established in 1871. It enforces the responsibility of the Local Government for the cost and management of extra ordinary public works, such as railways and canals, which have been paid for with borrowed money and not out of the revenues of the year". (Memorandum on Local Taxation in Bengal, 1890, p.18)

As Sir J.Starchey described it, "the additional cess on the land in Bengal was originally imposed in 1877, as a part of the modified financial arrangement under which the provincial revenues were required to bear the charges on account of the canals and railways constructed for the benefit, and for it's protection against famine. The Bengal taxation differed in this respect from that imposed in Northern India. Its character was provincial and imperial; and whereas in other provinces the whole of the proceeds of the new rates on the land have gone into the imperial treasury, a large portion of them has, in Bengal been left at the disposal of the Local Government, over and above the amount paid to the Government of India". (Strachey,J & Strachey, R, The Finances and Public Works of India 1869-1881,Gian Publishing House, New Delhi, 1986, p. 201) was much higher compared to other Provinces but Bengal got only a small proportion of the total revenue raised in the Province.[39]

However, the proceeds from public work cess, 1877 in Bengal like road cess mentioned earlier, was inadequate to meet the demand. Therefore, Bengal's burden of local taxation as usual continued to be the lowest among the Provinces. Table 15 & 16 indicate the burden of local taxation of different Provinces in 1888-89 and in 1915-16 respectively. The Memorandum on Local Taxation in Bengal, 1890 concluded that in Bengal the total proceeds from public work cess till 1890 always fell short of expenditure incurred on the above mentioned public work. And " ...it (public work cess) is always much less than the sum annually expended by this Government on 'the construction, charges and maintenance of ordinary provincial public works', which now exceeds thirty lakhs of rupees and is still deplorably insufficient for the requirements of so large a province".(Memorandum on Local Taxation in Bengal, Government of India, 1890, p. 18)

Table: 15
Local Taxation in Different Provinces in 1888-89*

Provinces	Population	Land Revenue	Provincial and Local Rates	Incidence on Land Revenue	Incidence of Rates	Incidence of Land Revenue and Rates
		(Rs.)	(Rs.)	Rs. A. P.	Rs. A. P.	Rs. A. P.
Bombay	16, 454,000	3,27,94,000	26,85,000*	1 15 9	0 2 7	2 2 4
Madras	30,836,000	4,75,19,000	68,19,000	1 8 7	0 3 6	1 12 1
NWP	44,136,000	6,73,82,000	66,29,000	1 8 5	0 2 4	1 10 9
Punjab	18,842,000	2,21,85,000	39,22,000	1 2 11	0 3 3	1 6 2
Bengal	**66,691,000**	**3,73,99,000**	**76,20,000**	**0 8 11**	**0 1 9**	**0 10 8**

*** These are figures for 1886-87 : later figures not being available**

Source: Memorandum on Local Taxation in Bengal, Calcutta,1890, p.19

Table: 16

Per Head Local Taxation and Land Revenue in Different Provinces in 1915-16

Provinces	Local Taxation Per Head			Land Revenue Per Head		
	Rs.	A.	P.	Rs.	A.	P.
Bombay	**0**	**6**	**3**	**1**	**5**	**7**
Punjab	**0**	**6**	**9**	**1**	**12**	**1**
Madras	**0**	**6**	**1**	**2**	**8**	**11**
Central Provinces	**0**	**4**	**6**	**0**	**10**	**0**
Bihar & Orissa	**0**	**3**	**8**	**0**	**7**	**11**

[39] Palit. R.C, Speeches and Minutes of the Hon'ble Kristodas Pal, 1882, pp. 165-183. Quoted in Thomas, P.J, The Growth of Federal Fiancée in India, Oxford University Press, London, 1939, p. 212

Bengal	**0**	**3**	**8**	**0**	**15**	**10**

Source: Thomas, P. J, The Growth of Federal Finance In India, Oxford University Press, London, 1939, p. 297

In sum it could be said that as a part decentralisation pursued since the later part of 19th century, British Indian government wanted to shoulder off some of the local responsibilities and consequently it was expected that local requirements would be met by local funds. Few number of local cesses and taxes imposed on land in Bengal coupled with low incidence of local and municipal taxation compared to other Provinces caused starvation of funds for local boards of Bengal entrusted with local development. The resource gap was unlikely to be met by grants while grants required for local purposes to be received from higher level government, were strongly discouraged. So the situation in Bengal urgently called for additional taxation. Needless to say, it only remained in proposal while any attempt of further taxation in Bengal faced stiff opposition on account of the condition of Permanent Settlement. Contrary to that Bombay, with which Bengal was always compared, made rapid progress in terms of generating local resources and consequent improvement of infrastructure. Bengal's local infra-structural development was severely affected due to this inadequacy of local funds which in turn had a negative impact on its economy, prosperity and buoyancy of Provincial taxes. The situation was further aggravated by Meston Award, commencing from 1921. Before turning to this area it would be relevant to trace back to the general development of Imperial-Provincial financial relations since the advent of the East India Company in order to understand the problem of Bengal Province in the overall context.

Historical background of Imperial-Provincial financial relations during the pre-Meston era i.e., between 1793 and 1921

There are three stages in the development of centralised system in British India. The first till 1773 when the Provinces were absolutely independent (including finance) to one another and subordinate only to the Company's governing body in London. The second phase starts from 1774 and lasts until 1833 during which time a beginning was made in the direction of establishing a supreme government in India. And lastly the period immediately following 1833 when a highly centralised system was established in India.

The foundation of British rule in India laid at Plassey was further strengthened by the victory at Buxar in 1764. From 1765-1773 the East India Company had no concerted plan of action or even a unified policy for the whole of India. Each Province was like a sovereign state. "Each possessed the powers of sovereignty, such as the legislative, the penal, and the taxing powers. They were independent in their finance." (Amdbedkar,1925, p .7) Such independence changed with the East India Company Act of 1772 or commonly known as the Regulating Act of 1773. This Act introduced a centralised system by bringing independent Provinces under the control of the Bengal Presidency. The heads of the Bengal Government was termed the Governor-General while the heads of the other two Presidencies i.e., Bombay and Madras were called only Governors. Subsequent legislation in 1784 further increased the power of the Governor-General. The East India Company Act of 1793 carried the process of centralisation one step further. The subordinate Presidencies were to obey the order of governor council. The centralisation process reached its culmination in the Government of India Act, 1833. The Governor General of Bengal was renamed Governor-General of India. And all powers i.e., civil, administration and revenues were vested in the Governor General council. (Ray, 1967, pp. 25-26). The Act of 1833 marked the beginning of the omnipotent system of centralisation and was necessarily accompanied by the Imperial system of finance. Till then, the subordinate Presidencies managed their own finances and made their own regulations, and the supreme government had only a general supervision over them. (Thomas, 1939, p. 12)

With the introduction of complete centralisation, complain of unequal treatment in distributing funds among Provinces came to the surface.It was observed "..the distribution of the funds was not based upon any fixed principle, nor on the resources, needs or expenditure of the Provinces but according to the relative claims and clamour of each Provincial Government on the purse of the Government of India." (Mishra,1942, p. 39) It was, however, alleged that the centralised system of exercising absolute control over other Presidencies like Bombay and Madras from Calcutta made it altogether difficult to know the exact need and particular condition existing in these Presidencies which naturally led to inequality of distribution of funds among the Provinces. (Thomas, 1939, p.63)

However, besides creating inequity among the Provinces absolute centralised system itself suffered from severe financial inadequacy from its very inception. Provincial governments were entrusted with collecting revenues but did not have the power to impose any tax. Consequently such divorce of financial power from the administration of collecting revenue led to extravagance and uneconomic management of Imperial resources. Inefficient system of keeping accounts by the Provincial governments coupled with extravagance in expenditure practised by the Provinces led to chronic deficits every year during the almost whole period of the absolute centralised system. Furthermore, the revenue system was dependent on one single tax namely the land revenue. This over-concentration of land revenue led to an injurious revenue system and in course of time taxing capacity of people started declining. (Ambedkar, 1925, p. 12) The precarious condition of the Imperial finance became more acute when heavy expenditure had to be incurred by the government due to Mutiny in 1857.

Decentralisation of Finances: Lord Mayo's Reform

The evil of the centralised system of finance started becoming apparent and led the Imperial government to allow limited decentralisation in Provincial finance in order to give some relief to the Imperial exchequer. Lord Mayo is said to have played the instrumental role in introducing this decentralisation in 1871. The chief object of Mayo's proposal was the transfer of certain administrative services to the Provinces, with fixed revenue assignments in order to meet those charges. The departments thus handed over were jail, police, education, registration, medical services, printing, roads, civil buildings, and miscellaneous public improvements. Evidently, they were services essentially of local character. To enable the Provincial governments to meet the financial liabilities for these departments properly, the government of India surrendered to them the receipts which generated from these services handed over to them along with additional assignments from the Imperial funds. The Imperial government also provided some grant to them and the rest was expected to be met from the imposition of fresh local taxation.

However, the chief defect of the system, thus introduced, was that the Imperial grants were allotted on the basis of expenditure which had been reached by the unsatisfactory methods of apportionment used in those days of Centralisation. The allotments were not based on actual or future needs of the Province or with no regard whatsoever to amounts contributed by them. No attempt was made to redress these extant injustices. Moreover, as the services transferred were mostly related to nation building and the expenditure of these was bound to expand. And the assignments made to the Provinces for these services were altogether inadequate. Even the favoured Province, Bombay considered its allotment most insufficient. (Thomas,1939, p.177) Consequently, some Provinces were benefited whereas other Provinces were not. "When the assignments were divided on that basis in 1870 the injustice of the division became patent to all. The Governments which were favoured before were still favoured, and those that suffered before had still to bear their undue burdens with patience."(Thomas, 1939, p. 175) However, Bombay, Central Provinces, Burma, and the Punjab were said to be favoured and Madras, North-Western Provinces and Bengal were neglected. (ibid. p. 175)

Lord Lytton Reform, 1877

In 1877, new financial arrangements were made with the Provinces. More departments were transferred to Provincial management. To enable the Provincial governments to meet expenditure on them efficiently, certain minor heads of revenue were also transferred. The chief motive of transfer of revenue was that it would create some interest in generating more resources. As the Provincialised receipts were not sufficient to meet the whole expenditure on the transferred head, the old system of assignments/grants had to be continued.

The main defect of the new system was partly the same as before. The transferred revenues were not sufficient to meet the charges and the bulk of the Provincial expenditure had to be met by the lump sum assigned by the government of India. The Provinces had no share in land revenue, then the largest source of revenue in India and therefore, they had no interest in administering it. The Provincial government had direct interest only in those revenue heads which were transferred to them. Consequently, this led to a division of interests in the collection of revenue and resulted in inadequate revenue collection.

The System of Shared Revenue of 1882

The system of shared revenues or 'divided heads' was introduced in 1882. The principle of the new system was that instead of giving the Provincial government fixed sum to cover the deficit of their budget, a certain proportion of the Imperial revenue of each Provinces should be earmarked. Certain heads of revenue which are definitely Imperial in nature such as customs duty, revenue from opium, receipts from railways were wholly reserved as Imperial. Those essentially of Provincial nature such as receipts from post office, receipts from law and justice, police, education, medical were reserved as Provincial. Between these, there were certain important heads such as receipts from forest, excise, assessed tax (income tax), registration, stamp etc. which were divided between Imperial and Provincial governments. An attempt was thus taken to make Provincial governments responsible for the collection of revenues under divided heads. The system of fixed lump-sum grant was abolished. Land revenue which was mainly under the Imperial head became the means of meeting deficits incurred in the Provincial budget. Thus the proceeds of land revenue was utilised to meet the deficit of Provincial government's budget along with some grants. Otherwise, it was decided that any surplus, if appears in Provincial budget, would be appropriated by the Imperial government.[40] The system was revived every five years and fresh settlements on these lines were made in 1887, 1892, 1897.

Table: 17

Resumption of Imperial Government from Provincial Resources in 1887
(In Pounds)

Provinces	Increase of annual resources under the principal Provincial heads of revenues as estimated on comparison of 1882 and 1887			Amount by which annual Provincial resources were reduced by the revision of 1887
	Land Revenue	**Stamps and Excise**	**Total**	
Central Provinces	**2,200**	**45,500**	**47,700**	**15,600**
Burma	**4,700**	**9,200**	**13,000**	**-**
Assam	**22,300**	**21,300**	**43,600**	**24,600**
Bengal	**19,200**	**171,550**	**190,750**	**103,600**
North Western Provinces	**8,000**	**130,150**	**138,150**	**100,000**
Punjab	**32,800**	**23,100**	**55,900**	**-**

40 "The balance of revenues and charges thus made Provincial, being against the Local Governments, will be rectified for each Province by a fixed percentage on its Land Revenue, (otherwise reserved as Imperial". (Vakil, C.N, Financial Development in Modern India 1860-1924, p. 30) "A certain percentage of land revenue, together with fixed cash assignments under the same head, was made over to the provinces to make up their deficits."(Jathar G.B & Jathar, K.G, Indian Economics, Oxford University Press, London, 11957, p. 349)

Madras	**27,750**	**142,550**	**150,300**	**174,400**
Bombay	**99,000**	**198,550**	**297,550**	**221,900**
Total	**195,950**	**741,900**	**937,850**	**640,100**

Source: Ambedkar, B.R, The Evolution of Provincial Finance In British India A Study in the Provincial Decentralisation of Imperial Finance, P.S King & Son, Ltd, London, 1925, p. 111

During the revision of the contracts in 1887, the government of India had appropriated large share of the increased revenue managed by the Provincial governments which amounted to 640,100 pounds sterling. Out of the total amount of contribution made by different Provinces to the Imperial exchequer, Bengal's share was 103,600 pounds sterling whereas in case of Madras and Bombay it was 174, 400 pounds and 221, 900 pounds respectively. Therefore, Bengal was least effected in the revision of contract of 1887. (table 17)

In the revision of 1892, the government of India faced a severe financial stringency i.e., wanted to resume larger amount from the Provinces. The revenue of Provincial governments increased by Rs. 2 crores and the Imperial government wanted to resume a fourth of the amount resulting in discontents among the Provincial governments. This according to the Imperial government, was the only option since any further imposition of fresh taxes was inexpedient. But the sharing arrangement of Provincial revenues was not implemented in an equitable manner. Table 18 indicates the total increase of revenue in the different Provinces and the amount realised by the Imperial government. It will be seen from the table 18 that Bengal having an increase of over Rs. 5 lakh contributed only Rs. 51,900 while Madras with an increase of Rs. 3 lakh had to contribute Rs. 1 lakh.

Table: 18
Resumption by the Government of India from Provincial Resources in 1892

Province	Increase of Revenue in 1891-92 (revised estimate) compared with the estimate for the contract of 188788 to 1891-92 (Rs.)	Amount resumed by the Government of India (Rs.)
Madras	**3,13,200**	**1,03,800**
Bombay	**3,99,200**	**1,31,100**
Bengal	**5,17,700**	**51,900**
North western Provinces and Oudh	**53,300**	**56,900**
Punjab	**1,95,400**	**41,000**
Central Provinces	**1,19, 200**	**22,700**
Assam	**99,800**	**-**
Lower Burma	**3,34,900**	**58,900**

Source: Thomas, P.J, The Growth of Federal Finance In India, Oxford University Press, London, 1939, p. 257

In the last quarter of the 19th century the rapid increase of the world production of silver caused a discrepancy in the gold-silver ratio. The British experts, however, agreed on to continue maintenance of a silver standard elsewhere and gold standard at home. Consequently India became the main victim of this double standard. “In 1876 the first drastic fall in the exchange rate alarmed the Government of India, but the home authorities did not permit any remedial measures. In 1877 India absorbed about 84 per cent of the world production of silver and the exchange continued to fall. There was a conflict of interest between the home authorities and the Government of India. The revenues of India were collected in silver but the home charges had to be paid in gold. With every fall in the exchange the Government of India found it more difficult to make both ends meet...” (Rothermund, 1970, pp. 91-93)

As a result Imperial finances once again had been under severe strain. Confronted with this situation, the government of India called upon the Provinces to make contribution in the aid of the Imperial exchequer. There were again usual protest followed by the same argument that fresh taxation was inexpedient. The huge drainage from the Provincial to the Imperial exchequer and the system of fixed assignment resulted in mounting deficits in the Provincial budgets during the last few years of 19th century. (Amendkar, 1925, p. 114)

In course of time, the whole system of the Provincial contracts had become unpopular. The Provincial governments repeatedly clamoured that the condition imposed on them was unfair. They pointed out that while the revenues of the country were expanding their own treasuries did not get an adequate share of the bounty which could be utilised for local improvements. In case they made economies and fostered revenues much of the resulting increase was appropriated by the Imperial government at every revision. Moreover, if any Province economised, the reduced standard of its expenditure was taken as the basis of the next settlement. In consequence, in the last few years of contract Provincial governments tried to spend all they could because the surplus of balances was sure to be taken away by the Imperial government at successive revisions.[41] This practice tended to reduce the motive for Provincial economy. (Jathar & Jathar 1957, p. 532)

Besides that the revisions had an unsettling effect on Provincial expenditure. They breached the continuity of the Provincial administration which was especially injurious in the matter of public works. Every revision had a disturbing and dislocating effect on the all important public works department where continuity was the key. Furthermore, the resumption of revenues between the several Provinces was unfair and unequal in which

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41 Sir, A. Mackenzie, the Lieutenant-Governor of Bengal, an ardent critique of such quinquennial settlements, said that, ”I deprecate the way in which these quinquennial revisions have too frequently been carried out. The provincial sheep is summarily thrown on its back, close clipped and shorn of its wool and turned out to shiver till the fleece grows again... The normal history is this; two years of resumed energy on a normal scale, and one year of dissipation of balances in the fear that, if not spent, they will be annexed by the supreme Government at the time of revision.” (Quoted in Mishra, B.R, Indian Provincial Finance 1919-39, Oxford University Press, London, 1942, pp. 46-47)

some Provinces had to bear more burden than others. Because the distribution of the Imperial burdens among the Provinces through large resumption at every revision was not based on any intelligible principle of ability, population or resources of the Provinces which led to gross inequality. (Shah, 1921, p. 397). However, it was alleged that Madras and North Western Provinces bore the brunt of Imperial taxation more than the other Provinces. (Thomas, P.J, 1939. p. 260)

The Indian National Congress in it's Calcutta session in 1886 passed a resolution disapproving of the system of Provincial contracts and urging that the Provinces should be granted larger financial responsibility. Bengal, Madras and Bombay also sent representations against the system before the Royal Commission on Indian Expenditure (Welby Commission) appointed in 1896. The leaders of the Indian National Congress and Provincial governments suggested clean division between Imperial and Provincial revenues on the basis of the suggestion put forward by the four members of the Finance Committee of 1887. This was ultimately adopted in 1919.

In his evidence before the Welby Commission, 1896, Mr. Gokhale vigorously criticised the system of Provincial finance. Subsequently he indicated how disproportionate the burden was on the different Provinces. As can be noticed that though the percentage contribution of Bengal (68) in the resumption of the increment in the Provincial revenue was highest followed by N.W. Provinces (76) until the late 19th century, its contribution to Imperial exchequer in terms of per 100 of population (Rs. 1,070) was much lower than other Provinces. Thus, per capita burden of resumption by Imperial government in Bengal was much lower than other Provinces.(table 19)

Table: 19

Unequal Impact of Resumption Made by Imperial Government

As presented by Mr. Gokhale before the Welby Commission, 1896

Provinces	The Percentage of revenue surrendered by each Provinces to the supreme government(year)	The contribution of each Provinces per 100 of population (Rs.)
Central Provinces	56	710
Burma	58	3,120
Assam	51	970
Bengal	68	1,070
N.W. Provinces	76	1,770
Punjab	45	820
Madras	52	1,230

Bombay	**46**	**1,550**
India Districts	**26**	**-**

Source: Shah, T.K, Sixty Years of Indian Finance, Bombay Chronicle Press, Bombay, 1921, p. 397

As Mr. Gokhale said, the following figures "are sufficient to show the totally arbitrary character of the present contracts. The fact is that these inequalities are a legacy of the Pre-decentralisation days when the expenditure of different provinces was determined ... not by the resources of those provinces but by the attention that their governments succeeded in securing from the central Governments". (Quoted in Shah, 1921, p. 397)

The Quasi Permanent Settlement 1904-05

The quasi permanent settlement of 1904 was intended to rectify the aforementioned defects, at least partly, and intended to introduce an element of permanence into the settlements. Government of India declared that settlement made with the Provinces were to be permanent and not subject to revision in future, except when with extraordinary calamity and found to be unfair to a Province/Provinces. By virtue of this proviso the settlement was termed quasi permanent. The share of the Provinces in the divided heads were fixed on a semi-permanent basis and the practice of resuming the Provincial cash balances was given up. The division of revenue into Imperial, Provincial and divided heads still remained. Land Revenue, excise, stamps, income tax and forests were under divided heads in all the Provinces but the division was effected in different proportion in the different Provinces. However, the unequal treatment in the matter of the Provincial contracts again came to the fore. "Certain Provincial Government pointed out to the Decentralisation Commission (1909) that there was considerable inequity in the distribution of tax burdens between the different provinces.... Bombay was handsomely treated as compared to the rest of India.... Complaints of unequal treatment came chiefly from the United Provinces which claimed that it had to shoulder much more burden than its legitimate share of the Imperial expenses".(Thomas, 1939, p. 294) Injustice was also done to Madras. Yet the Government of India itself admitted in a letter to the Secretary of the State in 1910 that Madras and United Province were 'bearing the burnt of the financial burden of the Empire'. (Thomas, 1939 p. 294)

Unequal contribution to the Central exchequer in 1910 would be evident from the table 20 below. In case of some Provinces such as Punjab and Burma, a large part of the revenue thus contributed returned to them. These two Provinces made larger proportional contributions but this was made up by the government of India spending more generously in those Provinces. On the other hand Madras and United Provinces contributed large amount to the Central government's exchequer but the proportion of revenue spent within their territories was among the lowest. However, the contributions by Bengal and Bombay were least though Bengal and Bombay were the wealthiest Provinces in India and during that time and started emerging as industrial centres. But these two industrially advanced Provinces bore lighter burdens of taxation as the income tax structure was still underdeveloped. The burden of taxation thus, fell more heavily on the poorer agriculturists of Madras and United Provinces for land was rather heavily taxed particularly in temporary settled regions. Thomas, 1939 pp. 294-295)

Table: 20
Unequal Distribution of Imperial Burden on Different Provinces in 1910

Provinces	Percentage of revenue contributed to the Central Government	Percentage of revenue spent in the Province
Madras	49.23	57
United Provinces	48.77	60
Punjab	48.10	84
Bengal	36.86	76
Burma	35.07	83
Bombay	34.19	76
Eastern Bengal and Assam	34.19	72
Central Provinces	30.94	82

Source: Thomas, P.J, The Growth of Federal Finance In India, Oxford University Press, London, 1939, p. 295

Permanent Settlements of 1912

The Royal Commission on Decentralisation (1909) investigated the Provincial and Imperial finances. Consequently certain principles of allocation of collecting and sharing of revenue and charges between the Imperial and Provincial governments was approved by the Commission without proposing any radical change in it. However, following the recommendation of the Commission, the government of India decided to make a few modifications in the existing pattern of allocation of revenue and charges and wanted to make the settlement permanent since the year 1912.

Government of India laid down the principle (endorsed by the Decentralisation Commission) that the same share of the chief sources of revenue should be given to each Province in order to ensure a reasonable equality of treatment. Unfortunately this principle too failed to bring any uniformity as regards the share of revenue in each head allotted to the Provinces. For instance, while Madras, Punjab and Burma got only one-half of the excise revenue, Bengal the United Provinces and the Central Provinces got three fourths and the other Provinces received the whole. This again resulted in unequal growth of revenue of different Provinces during the period of 1912-13 to 1920-21. (table 21)

Table: 21

Percentage of Growth Between 1912-13 and 1920-21 Under the Principal Heads of Revenue of the Provinces

Provinces	Excise	General Stamps	Land Revenue And other Provincial Heads	All Provincial Heads
Madras	70.24	63.22	11.66	29.06
Bombay	102.57	119.13	32.00	52.43
Bengal	35.91	69.49	13.52	22.30
United Provinces	43.70	45.75	17.13	20.82
Punjab	106.78	73.73	26.86	34.88
Burma	36.15	26.62	33.52	33.65
Bihar & Orissa	24.20	55.29	4.53	11.20
Central Provinces	19.00	48.25	26.30	33.18
Assam	44.26	22.22	20.60	28.00
All the 9 Provinces	62.27	69.24	20.98	39.48

Source: Indian Statutory Commission, Vol. V, Swati Publications, New Delhi, 1988, p. 833

The percentage increase of revenue was much higher in Punjab Madras and Bombay than in Bengal and United Provinces. Therefore percentage growth of revenue under the Provincial heads during 1912-13 to 1920-21 for Bengal was only 22.30 as against 29.06 in Madras, 34.88 in Punjab and 52.43 per cent in Bombay. (table 21) This inequity was said to have further accentuated by the introduction of Meston award, 1921 in which Bengal Province was the worst affected. But Bengal, as is evident from table 21, started experiencing the financial crisis much before the introduction of the Meston settlement while Bengal registered much lower growth in Provincial revenue compared to other Provinces. The reason behind it was difficult to seek. In permanently settled Bengal, land revenue already lost its buoyancy and became an inelastic source of revenue. During early part of the 19th century rapid industrialisation, particularly export oriented, did take place in Bengal. But the ever expanding custom duty falling under the Imperial head failed to improve financial health of the Bengal government. On the other hand income tax falling under the divided heads was shared between the Provincial and Imperial governments until 1921 i.e. until the implementation of Government of India Act 1919. That too did not seem to help Bengal that much for, as Thomas (1939) argued, that the income tax structure was yet to develop in the early part of the 20th century. Income tax and professional or certificate taxes were levied at very low rates during 1861 to 1919. (Das Gupta, 1948, p. 287) Therefore, exclusion of customs revenue from the Provincial heads coupled with inelastic land revenue and underdeveloped income tax collections until the early part of 20th century made the finance of Bengal much worse than other Provinces. Meston award (1921), however, accentuated the problem further by excluding customs duty and income tax both from the Provincial heads of revenue that consequently gave rise to the demand for total abolition of this system and the feeling of being disfavoured compared to other Provinces.

However, if we follow the evolution of the Imperial-Provincial finance, we can hardly overlook the fact that there was no well thought out plan on different systems of Imperial-Provincial finance undertaken from time to time. Neither adequate attention was paid to the need of a particular Province or Provinces nor the capacity of Provinces to cope with the different systems was taken into account. All that mattered was the urgency to meet the immediate need of the time and i.e., the need of the Imperial government for further consolidation and expansion of its territory. Therefore, different experiments were undertaken from time to time in relation to the Imperial-Provincial finance in an ad hoc manner. All these eventually led to varying stage of development among Provinces widening regional disparities. Perceiving the problem in this overall perspective, it may be noted that not only Bengal but other Provinces too were affected in different degrees and eventually carried this legacy of deep-seated inter-Provincial disparity in resource mobilising potential in to the post-Independence days.

Bengal Provincial finance under Meston Settlement and compared to other Provinces

The passing of the Government of India Act, 1919 marked the end of an era and the beginning of a new. The financial system adopted in India in 1919 was a halfway measure between unitary and federal. It was, however, proposed to hand over to the Provinces the entire financial responsibility- both, of revenue realisation and expenditure. The old system of divided head was discarded and the total revenue of India was shared between the Central and the Provincial Governments. Therefore, proceeds from income tax, custom duties, salt tax, opium tax, contribution from railways, posts and telegraphs were allotted to the Centre while land revenue, liquor tax, excise, irrigation receipts, forests, stamps (both general and judicial) and registration fees became Provincial sources of revenue.

As a result the Central government was faced with a heavy annual deficit of Rs. 18.5 crores. and the Provincial governments gained Rs.18.5 crores. In order to meet the deficit of the Centre the Joint Report suggested a system of contribution from each Provinces assessed on the basis of their normal surplus. This proposal was strongly opposed by several Provinces. In order to ease the difficult situation the Financial Relation Committee was appointed, with Lord Meston as chairman, to inquire into the whole question of the financial relations between the Central government and the Provinces. After considering different aspects of the situation the Meston committee concluded that the guiding principle in this matter should be the capacity to contribute and the Committee recommended a fixed ratio of contribution which came into force in 1921-22. Protest from two industrial Provinces such as Bombay and Bengal became stronger. They emphasised on the fact that being centres of commercial and trade activities their indirect contribution in the form of custom, salt and income tax was much larger than other Provinces and their finances tended to be already in a precarious condition as the ever-expanding revenue sources were kept under the Imperial government by the Government of India Act, 1919. Therefore, they opposed the programme of any further contribution to the Central exchequer and considered the whole arrangement unfair and demanded complete revision of the whole settlement. Bengal's financial situation gradually became much worse than other Provinces much before the introduction of Meston settlement as we have discussed earlier. Consequently, the case of Bengal had been recommended for special consideration to the government of India. As a result, certain remission in the contribution of Bengal was agreed upon for a period of three years commencing from1922-23. However, in 1926-27 the system of contribution was abolished altogether for all Provinces.

Abolition of the system of contribution augmented the resources of the agricultural Provinces such as Punjab and Madras but industrial Provinces were still left with a comparatively inadequate and non-expanding resource base. It was, however, recognised that the allocation of the entire receipts of land revenue to the Provinces and the entire receipts from income tax and custom duties to the Imperial government had penalised the industrial Provinces to the benefit of the agricultural Provinces.(Simon Commission Report on India (SCRI) Vol. V, p. 961) In order to eliminate such injustice, Joint Select Committee decided to allocate part of the proceeds from income tax to the Provinces which was known as Devolution Rule 15 and was particularly aimed at benefiting two industrial Provinces. Unfortunately Bengal and Bombay were the only two Provinces which have not benefited by the Devolution rule 15. Whereas other Provinces for whose benefit the rule was not introduced gained by varying amounts of revenue. It is evident from the table 22 that the rule had failed to give the industrial provinces such as Bombay any share of the income tax for Bombay had received nothing since 1922-23 and Bengal since 1921-22.

Table: 22

Amount Realised by the Provinces under Devolution Rule 15

(Rs. in lakhs)

Province	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29 Budget
Madras	4.08	--	10.82 (5.66)	1.57	4.27	4.64	5.20	6.50
Bombay	14.72	3.00	-- (13.50)	--	--	--	--	--
Bengal	0.95	--	--	--	--	--	--	--
United Provinces	3.20	0.33	--	--	0.03	--	--	--
Punjab	0.30	5.69	4.24 (0.06)	1.90	3.82	4.02	3.50	4.00
Burma	3.85	-- (1.11)	0.38 (-0.08)	5.90	8.92	14.32	15.00	14.00
Bihar & Orissa	0.58	2.87	2.55	2.55	2.41	3.25	3.60	3.50
Central Provinces	0.90	1.49 (0.39)	3.42	2.30	1.36	2.18	1.60	2.00
Assam	0.02	1.15	4.16	5.54	5.29	4.92	6.00	6.00
Total	28.60	14.53 (1.50)	25.57 (19.14)	19.76	26.10	33.33	34.90	36.00

Source: Simon Commission Report on India (Indian Statutory Commission), Vol. V, Reprinted by Swati Publications, New Delhi, 1988, p. 868

However, as mentioned earlier, the major contention of the industrial Provinces was, ever expanding sources of revenue such as income tax, custom duties fell under the Imperial heads. In contrast the Provinces particularly Bengal and Bombay were left with inelastic source of revenue. Thus over time almost all Imperial revenues exhibited large potentials of expansion and growth over the years. On the contrary revenues under the Provincial heads indicated declining tendency over the years. (see Appendix table 1 & table 2) In the course of last several decades the customs and income tax receipts registered considerable increase but the land revenue showed declining tendency.[42]

Considering Bengal separately, it can be noticed that on the one hand Bengal started developing as an industrial Province with two main industries namely jute and tea while on the other hand land revenue in Bengal-one of the major revenues became inelastic. The two major industries of Bengal, jute and tea both were mainly export based and earned considerable amount of customs duties and income tax. Neither of these, however, were under the purview of Provincial taxation. Excise, another important Provincial tax also was not a very elastic source of revenue in Bengal. When the income from excise in Madras with a population of 42 millions was Rs. 5 crores and in Bombay with population of 19 million is Rs. 4.5 crores, the revenue from excise in Bengal with population of 47 millions was only 2.25 crores. Moreover, there was a political tendency towards prohibition of liquor which was likely to result in further reduction in the proceeds from excise. (Gupta, 1928, p. 8) Low level of per head land revenue and per head excise of Bengal could be evidenced from the table 23.

Table: 23

Burden of Per-Head Land Revenue & Excise in the Various Provinces in 1928-29

Provinces	**Land Revenue**						Excise		
	Per head			**Per acre**			Per head		
	Rs.	**A.**	**P.**	**Rs.**	**A.**	**P.**	**Rs.**	**A.**	**P.**
Bengal	**1**	**3**	**8**	**0**	**11**	**0**	**0**	**7**	**2**
Bihar & Orissa	**0**	**9**	**5**	**0**	**8**	**6**	**0**	**8**	**1**
Bombay	**1**	**11**	**6**	**2**	**7**	**9**	**1**	**12**	**9**
Madras	**2**	**5**	**0**	**1**	**14**	**9**	**1**	**3**	**3**

[42] The land revenue which was the most important and major source of revenue started showing declining tendency since the later part of 19th century while other taxes such as income tax, customs and railways gained importance. In the first period,before the imposition of income tax in 1860, land revenue constituted between 61 and 73 per cent of the total revenues of India. During the second period, from 1861 to 1919, when income tax or professional certificate taxes were levied at lower rates the percentage of land revenue to total revenue came down significantly and varied between 40 and 50 per cent. During the third period of higher income tax rates and high customs duties from 1916 onwards the percentage came down still further and it was about 20 per cent during early part and middle of the 20th century. (Das Gupta, B, Provincial Taxation Under Autonomy, Oxford University Press, London, 1948, p. 287)

United Provinces	**2**	**0**	**0**	**1**	**15**	**9**	**0**	**4**	**4**
Punjab	**2**	**5**	**7**	**3**	**6**	**4**	**0**	**8**	**3**

Source: Thomas, P. J, The Growth of Federal Finance in India, Oxford University Press, London, 1939, p. 348

Therefore, the growth of revenue in Bengal was confined to stamps duty, registration charges and small item like amusement taxes. Thus, the allocation of revenue sources in the Government of India Act,1919 was particularly quite unfavourable for Bengal. Other Provinces sought to enhance their revenue by additional taxation on land but Bengal could not do so. So far any attempt to impose cesses on land in Bengal was only partially successful. Therefore, while other major Provinces managed to increase their revenue after the introduction of Meston Settlement, in case of Bengal there was no such proportionate increase. Among the major Provinces, Madras was able to increase its revenue per head from Rs.1.9 in 1913-14 to Rs. 4 in 1925-26, Punjab increased it from Rs. 2.4 to Rs. 5.8 and Bombay from Rs. 4.1 to Rs. 8 during the same period. Contrary to that Bengal was able to increase its revenue from Rs. 1.4 in 1913-14 to Rs. 2.5 only in 1925-26. (Gupta, 1928, p. 4) The budget speech given by the Finance Member of Bengal while introducing the budget for 1927-28 bore the testimony to the acute financial crisis faced by Bengal during the period. As he said, “Even if the contribution to the Government of India is remitted, either temporarily or permanently, we shall have to face a deficit of Rs. 37,13, 000 in next year budget. In these circumstances we may be able to carry on for a year or so, but not unless we can see ultimate relief in the near future; and that relief must take the shape of a new Financial Settlement which will leave Bengal with an expanding income adequate for her needs and proper development.” (quoted in Gupta, 1928, p. 10)

Paradoxical to the continuous deterioration of Bengal’s financial position its contribution to the Imperial exchequer had been increasing and was much higher than other Provinces. Table 24 below shows that major portion of the Imperial revenues was contributed by the two Provinces-Bengal and Bombay. Bengal’s share in the Imperial revenue in 1921-22 was Rs. 23.11 lakhs which was highest among the Provinces except Bombay which contributed Rs 24.62 lakhs. In 1928-29 Bengal had the largest share of Central revenue which was Rs. 26.77 lakhs followed by Bombay Rs. 24.83 lakhs. In contrast only Rs. 8.95 lakhs in 1921-22 and only Rs. 10.97 lakhs in 1928-29 was left as a Provincial share of revenue in Bengal. The memorandum submitted by the Bengal government to the Simon Commission Report on India (SCRI, Vol. VIII, p. 88) also mentioned about the largest contribution made by Bengal to Central exchequer. Contrary to that the Province managed to retain the smallest percentage of its resources for meeting its needs (table 25). Furthermore, if the Imperial and Provincial taxation are taken together the incidence of taxation per head of the population was much higher in Bengal than in any other Province except for Bombay (table 26) (SCRI , Vol. VIII, p.90)

Table: 24
Share of Central Revenue and Provincial Revenue in Each Provinces Between 1921-22 and 1928-29

(In lakhs of Rs.)

Provinces	1921-22		1925-26		1928-29	
	Central	Provincial	Central	Provincial	Central	Provincial
Bengal	**23.11**	**8.95**	**26.24**	**10.71**	**26.77**	**10.97**
Madras	8.85	15.23	6.64	16.93	7.67	17.58
Bombay	**24.62**	**13.67**	**23.88**	**15.58**	**24.83**	**15.22**
Punjab	2.41	8.85	.71	12.66	1.01	18.15
U.P	3.74	12.42	1.64	12.70	4.22	11.45

Source: Gupta, J.N, The Case for Financial Justice to Bengal, Calcutta University Press, 1931, p. 34

Table: 25
Percentage of Revenues of the Government of India Derived from Different Provinces Between 1921-22 and 1925-26

Provinces	Percentages in-	
	1921-22	1925-26
Bengal	**36.0**	**45.0**
U.P	**6.0**	**1.6**
Madras	**12.3**	**9.6**
B. & Orissa	**0.7**	**0.7**
Punjab	**4.0**	**1.5**
Bombay	**39.0**	**40.0**
C.P	**1.5**	**1.0**
Assam	**0.5**	**0.6**
Total	**100.00**	**100.00**

Source: Simon Commission Report On India (Indian Statutory Commission), Vol. VIII, p. 88

Table: 26
Per Head Central and Provincial Taxation and Combined Per Head Taxation (1925-26)

Province	Provincial taxation Rs. A.	Central Taxation Rs. A.	Total Rs. A.
Bengal	**2.5**	**5.3**	**7.8**
U.P	2.13	0.9	3.6
Madras	4.0	1.11	5.11
Bihar & Orissa	1.11	0.1	1.12
Punjab	5.8	0.14	5.6
Bombay	**8.0**	**11.11**	**19.11**
C.P	4.0	0.7	4.7
Assam	3.5	0.8	3.13

Source: Simon Commission Report On India (Indian Statutory Commission), Vol. VIII, p. 90

It may be true that not all money raised in Bengal by way of customs duties and income tax was paid by the people of Bengal. But the part paid by people from outside was likely to be comparatively small. An analysis of income tax assessment was made in 1920 by the Financial Relation

Committee which showed that over 90 per cent of income tax collected in Calcutta came solely from Bengal. (SCRI, Vol. VIII, p.86)

The memorandum submitted by the government of Bengal to the Indian Statutory Commission commented that, "The custom revenue is derived from both import and export duties. It is not possible to say what part of the imports paying duty at Calcutta goes to areas outside Bengal, but it is certain that the larger part is consumed in Bengal. With regard to exports, there is no question. Almost all the jute and much of the rice and tea on which export duties have been levied at Calcutta are grown in Bengal". SCRI, Vol. VIII, p.86) Thus almost whole of the export revenue, one of the most expanding sources of income, increasing from Rs. 2.92 lakhs in 1919-20 to Rs. 3.64 lakhs in 1925-26 was derived from Bengal. (table 27)

Table: 27
Customs Duties Derived from Bengal Between 1919-20 and 1925-26
(In Lakhs of Rs.)

Items/Year	**1919-20**	**1925-26**
Jute	2,92	3,64
Tea	50	43
Rice	2	7

Source: Simon Commission Report On India (Indian Statutory Commission), Vol. VIII, p.86

Denial of any share in expanding areas of revenues such as income tax and custom duties or indeed from any revenue based on the commercial and industrial wealth of the Provinces except that from the stamp duty, has been felt more acutely because 'the Province has been burdened with the increasing cost of administration which the commercial and industrial development made necessary'.(SCRI, Vol. VIII, p.86) Furthermore, it was alleged by the government of Bengal that abolition of Provincial contribution was possible because of rapid increase of revenue from custom duties since 1921. This enabled the government of India to abolish the Provincial contribution. In other words, people of the industrial Provinces namely Bengal are now making the contribution for other Provinces. (SCRI, Vol. VIII, p.91)

The government of Bengal urged total revision of the Meston Settlement before the Reform Commission which was entrusted to review the financial condition of both Imperial and Provincial government. Government of Bengal claimed that, the existing financial settlement was wrong and treated Bengal most unfairly, and owing to that Bengal had been suffering from shortage of funds. Thus, the working of the reformed constitution in Bengal was so hampered that the ministers in the nation building departments had found it extremely difficult to carry on their work. We would like to turn to this area later on.

Consequently the demand for sharing the proceeds from jute duty and income tax came to the fore. While it was admitted that Permanent Settlement inhibited the government of Bengal from realising revenue from further increase in valuation of land[43] in general (table 28 & 29) compared to other temporarily settled Provinces and particularly from expanding commercial crops such as jute. The government of India, however, managed to appropriate the benefit from such commercial crops in the form of income tax, customs duty and railways receipts. Therefore, "Almost the whole of the jute crop grown in Bengal and its development since the days of the Permanent Settlement represents a great increase in the agricultural wealth of Bengal but because of the Permanent Settlement it has added nothing to the land revenue. Its revenue producing values is taken by the Government of India in the form of export duty, income tax and railway receipts and Bengal gets nothing".(Memorandum Submitted by the Government of Bengal to the Indian Statutory Commission, SCRI, Vol. VIII, p. 84). However, it was said that Bengal shared with Bihar and Orissa the unwelcome effects of Permanent Settlement which prevents the expansion of land revenue and with Bombay the loss of revenue derived from industrial and commercial wealth but Bengal alone suffers from the both of these adversities.

Table: 28
Land Revenue from Different Provinces Between 1912-13 and 1925-26
(In Thousands of Rs.)

Provinces	**Land Revenue in**		**Difference**
	1912-13	**1925-26**	
Permanently Settled Provinces			
Bengal	**2,70,42**	**2,78,77**	**+8,35**
Bihar and Orissa	1,49,21	1,55,71	+6,50
Other Provinces			
United Provinces	6,64,13	7,04,99	+19,86
Madras	6,83,62	7,18,18	+64,56
Punjab	3,15,79	1,57,58	+1,41,79
Bombay	3,92,26	5,03,68	+1,11,42
Central Provinces	1,80,04	2,02,78	+22,74
Burma	2,86,16	4,08,29	+1,22,13
Assam	71,50	92,54	+21,94

Source: Simon Commission Report On India (Indian Statutory Commission), VIII, p. 83

Table: 29

[43] It was a matter of great dissatisfaction during that time which was also expressed in the report of the Simon Commission Report on India that with the passage of time, there was a substantial growth of towns and also trade and industries. Therefore, consequent increase in the valuation of permanently settled land had been appropriated by the few. "There is a land in the city of Calcutta, the owner of which pays in land revenue a little over a quarter of a rupee per acre, although the annual value of the land runs into thousands of rupees. Most of the up-country towns in Bengal are built upon permanently settled land, which... escapes any increased land revenue and pays only a fraction of rupee per acre." (SCRI, Vol. I, p. 340) Furthermore, there was huge unearned income due to the exclusion of certain source of revenue at the time of Permanent Settlement. "The Government had also suffered loss of revenue from minerals and from fisheries in certain navigable rivers as these natural resources had not been taken into account at the time of Permanent Settlement. The annual loss 'in this generation' resulting from the Permanent Settlement might be estimated at anything between Rs. 2 crores and Rs. 8 crores. (Banerjee, A.C, The Agrarian System of Bengal, Vol. 2: 1793-1955, K.P. Bagchi & Company, Calcutta, 1981, pp.384)

Land Revenue Per head in Different Provinces in 1925-26

Permanently Settled Provinces	**Land Revenue Per Head in 1925-26** **Rs. A.***
Bengal	**0 10**
Bihar and Orissa	0 7
Other Provinces	
United Provinces	1 9
Madras	1 11
Punjub	2 8
Bombay	2 7
Central Provinces	1 7
Burma	4 15
Assam	1 3

Source: Simon Commission Report On India (Indian Statutory Commission), Volume VIII, P.84
***16 Anna=1Rs.**
4 pice = 1 Anna

Some scholars namely Shah (1921), Misra (1942), Thomas (1939), on the contrary, perceived this Meston Settlement as a rectification of a long standing financial injustice to some Provinces and welcomed it. They were of the opinion that Bengal should not ask for favour instead the Province should take necessary steps to increase its own revenue. It was often pointed out by the 'government of Bengal that its financial difficulties on account of Permanent Settlement are special and hence the Province needs favoured treatment'. It was argued that Bengal had already received favoured treatment for long by not contributing enough resources in the form of land revenue (Misra,1942, pp. 153-154) Before Bengal emerged as an industrial Province, its contribution to the Indian finance was waning particularly after middle of the 19th century. Since then proceeds from land revenue of Bengal started declining compared to other Provinces resulted in lower level of contribution of Bengal to Imperial exchequer. The table 30 brings out the fact that while other Provinces made rapid progress in the percentage share of Provincial revenue to total revenue over the period from 1871-72 to 1918-19, Bengal's percentage share to the total revenue increased at a lower pace than other major Provinces such as Bombay and Madras. While Bengal's percentage share of provincial revenue increased from 2.8 per cent in 1870-71 to 4.00 per cent in 1918-19 as against Bombay's percentage share increased from 1.8 per cent in 1871-72 to 5.45 in 1918-19 and Madras from 1.59 in 1871-72 to 4.75 in 1918-19. Owing to that, other Provinces had to bear unequal tax burden. Such inequality, as said by Thomas (1939) was rectified after the reform which is apparent from the table 30.

Table: 30
Percentage Growth of Provincial Finance Between 1871-72 and 1918-19

Provinces	**Provincial revenues as a percentage of the total revenues of India**					
	1871-72	**1882-83**	**1892-93**	**1904-05**	**1912-13**	**1918-19**
C.P	**.655**	**1.055**	**.863**	**.905**	**2.52**	**1.715**
Burma	**.572**	**1.66**	**2.256**	**3.023**	**4.73**	**3.57**
Bengal	**2.8**	**5.9**	**4.72**	**4.12**	**5.56**	**4.00**

N.W.P & Oudh	**1.99**	**4.16**	**3.6**	**-**	**-**	**-**
Punjab	**1.66**	**1.59**	**1.888**	**2.08**	**3.96**	**3.11**
Madras	**1.596**	**3.32**	**3.3**	**2.88**	**6.27**	**4.75**
Bombay	**1.8**	**4.9**	**4.49**	**4.05**	**6.17**	**5.45**
Assam	**-**	**.61**	**.738**	**.597**	**1.38**	**1.00**
U.P	**-**	**-**	**-**	**2.99**	**5.5**	**4.15**
Bihar &Orissa	**-**	**-**	**-**	**-**	**2.6**	**1.9**
Total Provincial	**11.11**	**22.8**	**21.75**	**20.4**	**38.6**	**29.2**

Source: Ambedkar, B.R, The Evolution of Provincial Finance in British India, A Study in the Provincial Decentralisation of Imperial Finance, P.S. King & Son, Ltd., London, 1925, p. 136

Table: 31

Increase of Revenue of Different Provinces Between 1921-22 and 1928-29

(In lakhs of Rs.)

Provinces	**Revenue 1921-22 (deducting contributions)**	Revenue 1928-29	**Percentage increase**
Madras	**11.46**	**17.53**	**53**
Bombay	**13.11**	**15.22**	**16**
Bengal	**8.32**	**10.99**	**32**
United Provinces	**10.02**	**11.45**	**14**
Punjab	**7.10**	**11.16**	**57**
Burma	**9.18**	**11.12**	**21**
Bihar & Orissa	**4.43**	**5.87**	**30**
Central Provinces	**4.63**	**5.36**	**16**
Assam	**1.81**	**2.74**	**50**
Total Provincial revenues	**70.06**	**91.44**	**30**

Source: Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, London, 1939, p. 346

It is also clear from table 31 that the Punjab and Madras enjoyed a much larger increase after the Meston settlement of revenue than Bombay, United Provinces, Bengal, Bihar and Orissa. But it may not be necessarily concluded, as Thomas (1939) argued, that the Meston Settlement was unfair to Bengal along with other Permanently Settled Provinces. This result, in his opinion, was partly due to the rectification of the longstanding injustice suffered by certain Provinces before the Government of India Act, 1919. However, Madras and United Provinces contributed before Meston Settlement much larger proportion of their total revenue to the Central exchequer than Bengal and Bombay. As land revenue was under divided heads and the incidence of which was much higher in these two Provinces than in Bengal and Bombay. But this inequality was hidden by the system of 'divided heads' and was largely rectified in the Act of 1919. (Thomas, 1939, p. 346)

In British India land was subject to two taxes: local rates (cesses) and land revenue. Since over time Permanent Settlement prevented the land revenue from being an expansive source of revenue. It was also suggested that necessary revision of land revenue settlement (Permanent Settlement) should be done by the Bengal government instead of asking for special concessions. Because with the inception of Government of India Act, 1919 land revenue came under the purview of Provincial government which would eventually help Bengal, as suggested by some scholars, to overcome the severe financial crisis.[44] In line with this argument it was also suggested that Bengal should take necessary steps to augment its revenue not only through alteration of the arrangement of Permanent Settlement but also through imposition of further local cess on land instead of asking for favour. But increasing Bengal's revenue through the existing cesses was difficult not only due to stiff opposition from *Zemindars* but also actualising more revenue from cesses on land revenue was limited by the fact that the valuation of land had not been revised for a long time and the rate of cess on land was based on outdated valuation. Valuation was made at very long intervals sometimes of 30 or 40 years or more after the first imposition of the road cess (1871) and public works cess (1877). So income from them made only a meagre amount. In order to increase Provincial revenue some rectification was urgently necessary. (Das Gupta, 1948, p. 343).

However, the question of abolition of Permanent Settlement and imposition of cess gave rise to substantial debate among the scholars of Bengal. It was argued that possible increase of revenue through abolition of Permanent Settlement could not justify the deprivation made to Bengal since the Meston settlement.[45] Besides, any new local cess on land would have meant injustice for present owner of the land while the Permanent Settlement,1793 had created large number of intermediaries between the original landlords and tenant through sub-infeudation.[46]The counter

[44] "Now that under the Reform Act, Land Revenue has been made an entirely Provincial receipt. The Bengal Government may find it less difficult than before to increase their land revenue, in case of necessity. Instead of these we find the curious position that on the plea that their land recvenue is fixed and therefore small, they should have concessions in the matter of provincial contributions, and i fact, they have succeded in getting certain concessions. " (Vakil, C.N, Financial Development in Modern India, Bombay & London, 1924, p. 352)

[45] The criticisms (a) that Bengal can easily get rid of the Permanent Settlement, and (b) that this will bring substantial relief to the Province, are unfounded. In any case a possible increase of revenue by the abolition of the Permanent Settlement can not justify the deprivation of Bengal of her Provincial Revenue. Dutta Roy B.N (ed.) Sir N.N. Sircar's Speeches and Pamphlets, The Book Company Ltd., Calcutta, 1934, p. 108)

[46] The opposition against local cess on land was evident from Gupta's comment (1928) "It has sometimes been argued that the province enjoying the benefits of the Permanent Settlement should impose some form of local taxation on land, but this proposal of circumventing the Permanent Settlement has been closely examined and has been declared to be undesirable both on administrative and equitable grounds".(Gupta, J.N, The Financial Starvation of Bengal, Calcutta, 1928, p. 7).

Das Gupta summarised the opposition against local cess on land of Bengal in the following manner: " the opposition takes two distinct lines.. first they oppose the levy itself. An unequal levy on land hits the present owners of land doubly; they have to pay the tax; and the value of their land is reduced by the capitalised value of the tax.... secondly, the landlords object to the manner of collection under which they have to pay to Government the entire cess payable by themselves as well as by the ryots in anticipation of collecting the ryot's portion. The ryot's portion is difficult to collect in time because (a) the ryots in the permanently settled areas are accustomed to run up for three years in respect of rents and cesses, (b) the primary education cess (imposed in 1938) being new, the ryots make difficulties about paying it. Hence the landlords have always to pay in advance of collection.

argument was that the only person who suffered due to imposition of cess was the owner of the land at the time of levy. Later on the person to whom the land was transferred reduced the market price of the land by an amount equal to the capitalised value of the revenue or cess. Hence to the transferee the land revenue or the cess is no burden even if he is made to pay them. Further, it was argued that "the inequality will diminish with the passage of time until it entirely disappears in the newly established equilibrium". (Das Gupta, 1948, pp. 346-351)

The Meston Settlement resulted in the shortages of resources and mounting deficits in Bengal's finance leaving a very little sum for development purposes. Therefore, continued financial crisis of the Province had adverse impact on those departments of administration dealing with the moral and material progress of the people namely public health, agriculture, irrigation, industries and mass education. Let's compare the position of Bengal with other Provinces. Table 32, 33 & 34 indicate the increase of expenditure on nation building services of Bengal during 1920s compared to other Provinces. From the table 32 it is evident that during 1922-23 to 1929-30 the percentage increase of Bengal on nation building services was the lowest, 14 per cent as against 86 per cent in Madras, 82 per cent in Punjab and 25 per cent in Bombay. (see table 3 in Appendix)

Table: 32
Expenditure on Nation Building Services by Different Provinces
Between 1922-23 and 1929-30

(Rs. in Lakhs)

Provinces	1922-23	1929-30	Increase	Percentage increase
Madras	411.3	763.8	352.5	86
Punjab	299.0	542.7	243.7	82
United Provinces	298.0	388.2	90.2	30
Bombay	453.5	567.6	114.1	25
Bengal	353.9	404.0	50.1	14

Source: Simon Commission Report On India (Indian Statutory Commission), Volume II, p. 234

Table: 33
Percentage Increase of Expenditure on Education and Medical Relief & Public Health of Different Provinces Between 1922-23 and 1929-30

Provinces	Education	Medical Relief & Public Health
Madras	82	115
Punjab	78	94
United Provinces	47	67
Bombay	23	43
Bengal	21	24

Source: Simon Commission Report On India (Indian Statutory Commission), Volume II, p. 234

Table: 34

This cause hardship to them." (Das Gupta, B, Provincial Taxation Under Autonomy, Oxford University Press, London, 1948, p.351)

Expenditure Per Head of Population of Different Provinces in 1929-30

Provinces	**Expenditure per head on**								
	Education			**Medical & Public Health**			**Total Expenditure**		
	Rs.	**A.**	**P.**	**Rs.**	**A.**	**P.**	**Rs.**	**A.**	**P.**
Madras	**0.**	**9**	**9**	**0**	**5**	**5**	**4**	**2**	**11**
Bombay	**1**	**1**	**0**	**0**	**7**	**6**	**8**	**4**	**8**
Bengal	**0**	**4**	**6**	**0**	**3**	**4**	**2**	**8**	**10**
United Province	**0**	**6**	**9**	**0**	**2**	**3**	**2**	**11**	**8**
Punjab	**0**	**13**	**0**	**0**	**6**	**3**	**5**	**8**	**8**
Burma	**0**	**15**	**4**	**0**	**7**	**10**	**8**	**9**	**11**
Bihar & Orissa	**0**	**4**	**2**	**0**	**2**	**5**	**1**	**13**	**0**
Central Provinces	**0**	**6**	**6**	**0**	**2**	**7**	**3**	**12**	**8**
Assam	**0**	**6**	**9**	**0**	**4**	**8**	**3**	**14**	**9**

Source: Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, London, 1939, p. 347

Among other major areas agriculture, one of the major industries of Bengal did not get due fund for its development. The report of the Industries Committee revealed that while Madras was able to increase its expenditure on agriculture from Rs.13 lakhs in 1919-20 to Rs.17 lakh in 1926-27. Bombay from Rs.13.5 lakhs to Rs.16.5 lakhs, United Province from Rs.10 lakhs to Rs.23 lakhs, Punjab from Rs. 11 lakhs to Rs.22 lakhs during the same period. On the contrary Bengal was able to increase its expenditure on this vital sphere of national welfare from Rs. 8.5 lakhs to Rs. 10 lakhs only during the same period. (Gupta, 1931, p. 64)

In their note of dissent given before the Land Revenue Commission of Bengal, 1940 Sir Bijay Chand Mahatab, (Raja of Bardwaman) and Mr Brajendra Kishore, (Member of Land Revenue Commission) also commented that “far from financing scheme for improving the agriculture the Bengal government. could not spend sufficient money even for running their agricultural department efficiently. Whereas all other major Provinces, where there is no Permanent Settlement has been spending on an average 25 lakhs or so on agricultural department Bengal could not provide more than 12 or 13 lakhs. Moreover, Bengal has not got any agricultural college yet. Agriculture which is the main industry of Bengal has been starved and this was due to paucity of funds on account of inelasticity of land revenue. In spite of cultivator paying their due share of rent at a rate not less than that of Punjab and Madras.” (Note of Dissent by Sir Bijay Chand Mahatab, Raja of Bardwaman and Mr Brajendra Kishore, Member of Land Revenue Commission of Bengal, 1940, Vol. I, p. 303) **(**See table 5 in Appendix**)** Likewise, percentage expenditure on science and scientific departments of Bengal had also been suffering from paucity of funds and consequently expenditure on this department was much lower than other Provinces which had a retarding effect on the overall industrial development of Bengal. (See table 4 in Appendix**)** In this connection it would be worthwhile to note that permanent department of industries was established in Bengal in 1920 with an Advisory Board of Industries to advice the Director on important aspects of industrial development. Industrial Department from the very outset suffered from financial crisis and had to cut its projects down during the later part of 1920s. Five gazetted officers out of ten in the Industrial

Department had to be retrenched faced with such acute financial stringency. (Awwal, 1982, pp. 17-37)

Bengal Provincial finance in the depression of 1930s

The financial position of Bengal further deteriorated during the economic depression of early 1930s. Most of its revenues, particularly the liquor excise, stamps and registration fees were affected by the slump. Bombay and United Province withstood the depression relatively better than the other Provinces owing to rapid expansion of sugar industry in United Provinces and cotton industry in Bombay since 1930. In contrast, Bengal, Assam, Bihar and Orissa were the worst hit by the depression. The effect of the general economic depression were most severe in Bengal mainly because of the tremendous slump in the price of jute and rice, two principal crops of the Province. On the other hand it seems that other Provinces namely Bombay and United Provinces withstood the depression on account of comparatively lower decline of value of the agricultural production coupled with rapid expansion in two industries, cotton and sugar, under the protective tariff environment. However, percentage decrease of value of crops in Bengal was highest during the period of depression 61.1 per cent as against 45 per cent in Madras, 30.4 per cent in Bombay and 35.2 per cent in United Province. (table 35)

Table: 35
Value of Agricultural Produce of Different Provinces During the Depression Between 1928-29 and 1932-33
(about ten main crops) (Rs. in lakhs)

Provinces	**Value of crops in 1928-29**	Value of crops in 1932-33	Change in value	Percentage decrease from 1928-29
Madras	1,80,78	99,33	-81,45	-45.0
Bombay	1,20,52	83,86	-36,66	-30.4
Bengal	2,32,59	90.54	-1,42,05	-61.1
United Provinces	1,40,52	91.01	-49,51	-35.2
Punjab	76,78	48,53	-28,25	-36.8
Burma	63,38	29,45	-33,93	-53.5
Bihar & Orissa	1,35,17	56,55	-78,62	-58.2
Central Provinces	68,77	35,40	-33,37	-48.5
Total	10,18,51	5,34,67	-4,83,84	-47.5

Source: Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, London, 1939, p. 371

Table: 36
Provincial Surplus (Deficit) Between 1921-22 and 1936-37
(Rs. in lakhs)

Year	**Bengal**	**Madras**	**Bombay**	**Punjab**	**United Province**	**Bihar & Orissa**
1921-22	**-110.4**	**303**	**-43**	**-**	**115**	**-**
1922-23	**-26.1**	**342**	**148**	**-**	**177**	**-**
1923-24	**35.2**	**374**	**84**	**-**	**224**	**-**
1924-25	**-143.8**	**317**	**62**	**-**	**197**	**7**
1925-26	**33.9**	**320**	**-42**	**247**	**209**	**4**
1926-27	**-43.5**	**267**	**-121**	**260**	**188**	**-49**
1927-28	**0.3**	**207**	**-20**	**35**	**262**	**-29**
1928.29	**8.1**	**139**	**-21**	**-4**	**-83**	**-17**
1929-30	**2.4**	**124**	**11**	**105**	**64**	**-22**

1930-31	**-174.6**	**-106**	**-182**	**39**	**-91**	**-71**
1931-32	**-199.4**	**6**	**-47**	**62**	**-62**	**-35**
1932-33	**-129.8**	**77**	**22**	**79**	**15**	**2**
1933-34	**-175.9**	**0**	**15**	**66**	**-3**	**-10**
1934-35	**-5.3**	**5**	**-20**	**66**	**-13**	**6**
1935-36	**-3.7**	**-32**	**-22**	**9**	**17**	**-7**
1936-37	**-41.4**	**0**	**n.a.**	**2**	**-64**	**-12**

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committee, 1938

Of all the Provinces Bengal was hit the hardest by the depression which was also evidenced from huge successive budget deficits of Bengal during the period of depression compared to other Provinces. (table 36) In the expenditure side, due to the rise of extremist movement, expenditure on law and order and police occupied major portion in the budget allocation. Therefore, Bengal had to incur large amount of unproductive expenditure on police and jail & convictions compared to other Provinces in order to combat terrorist movement by sacrificing the expenditure on productive areas. (See table 6 & 7 in Appendix**)** Eventually, some measures of exercising economies[47]were taken but the mounting expenditure on police and jails owing to rapid deterioration of law and order situation of Bengal neutralised any attempt of exercising economy. On the revenue side, the collection of Provincial revenue started falling rapidly after 1931-32 to a level even lower than the level of 1921-22 (table 37).

Table: 37
Bengal Finance Between 1921-22 and 1936-37
(In Lakhs of Rs.)

Year	**Total Revenue**	**Total Expenditure**
1921-22	**987.8**	**1098.2**
1922-23	**985.4**	**1011.5**
1923-24	**1013.3**	**978.1**
1924-25	**1032.3**	**1176.1**
1925-26	**1070.6**	**1036.7**
1926-27	**1050.4**	**1093.9**
1927-28	**1081.3**	**1081.0**
1928-29	**1098.7**	**1090.6**
1929-30	**1135.9**	**1133.5**
1930-31	**966.3**	**1140.9**
1931-32	**901.1**	**1100.5**
1932-33	**938.0**	**1067.8**
1933-34	**905.8**	**1081.7**
1934-35	**1102.7**	**1108.0**
1935-36	**1147.5**	**1151.2**
1936-37	**1149.4**	**1190.8**

[47] Retrenchment committees (1922-23) were appointed in several Provinces. The Bengal Committee recommended a saving of Rs. 190 lakhs. Similarly the amount for Punjab committee was Rs. 37.25 lakhs and Bombay Committee Rs. 88 lakhs. (Banerjea, P, A Study of Indian Economics, Macmillan and co. Ltd. London, 1927, p.274) Different measures were taken in an object to reduce expenditure such as salary cut of the government employees. In some Provinces, emergency taxation was levied but such taxation was unpopular owing to the prevailing slump.(Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, London,1939, p. 370)

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committee, 1938

Faced with such acute financial crisis public opinion for sharing the proceeds from jute export duty and income tax with Bengal gained considerable support. Urgency of sharing of proceeds from jute duty with Bengal was perceived from three dimensions. Firstly, it was demanded that proceeds from jute duty could be utilised for bridging the widening budgetary gaps of Bengal. Secondly, government of Bengal and intellectuals also raised the question of the legitimacy of treating jute export duty as Imperial revenue. It was argued that jute duty should be treated as Provincial tax instead of federal[48].Some scholars went on to say that, in its incidence and character, the jute export duty has no resemblance to import duty. It is, in fact, revenue from land. Therefore, jute duty was a special class of revenue of Bengal imposed on land and should be treated as land revenue which was under the system federation classed as Provincial source of revenue. (Dutta Roy, 1934, pp. 107-108) That apart, others also emphasised on the fact that the jute "export duty had turned in substance into an excise duty to which the provincial government was entitled."[49] Finally, it was felt by the people of Bengal and the government that severe financial injustice was being done to Bengal by taxing its staple products for the benefit of the rest of India.[50] It may be mentioned here that jute duty was imposed in 1916 as an emergency measure under the exceptional circumstance of the war. Later on it was extended for longer periods. And jute from which the government of India earned considerable export duty, was one of the few commodities on which export duty was imposed leaving other products namely wheat, salt, cotton-goods, sugar and so forth entirely for the benefit of the producing Provinces (Awwal,1982, p. 38) Hence it was demanded that the whole proceed from the export duty on jute ought to be surrendered to Bengal while entire amount of the proceeds from the jute export duty along with income tax raised from jute manufacture and jute business located in Bengal was taken away by the government of India. Sir Anderson, the Governor of Bengal, felt that the Centre did not have any moral claim to appropriate any part of the proceeds of jute tax except so far as there might be disposable surplus after the legitimate requirements of the Provinces had been met. (Telegram from Government of Bengal dated

[48] The then Finance Minister of Bengal commented "we see no reason, therefore, why the proceeds of such an export duty should not be treated differently from an import duty...we have protested against the retention of any part of the export duty on jute as a federal source of revenue on the ground that it involves differential taxation of the inhabitants of Bengal and the other two jute-producing Provinces in favour of the rest of India." (Quoted in Mitter, S.C, A Recovery Plan for Bengal, the Book Company Ltd, Calcutta, 1934, p. 675)

[49] Suggested by S.N Roy, member of Councillor of Bengal Legislative Assembly, on 4th March, 1921, mentioned in Roy, J. K & Sato, H, Centre-State Financial Relations in India-A focus on West Bengal, Institute of Developing EconomicsTokyo,1987, p. 30

[50] "In the first place Bengal can never rest content under a fiscal system which aims at protecting largely at her expense as a consumer, the products of other provinces while taxing her distinctive staple product for the benefit of the Centre, in other words for the benefit of those provinces." (Telegram from Government of Bengal dated 6th May 1936; in Indian Financial Enquiry Report by Sir Otto Niemeyer, Government of India, 1936, p. 6)

6th May 1936; in Indian Financial Enquiry Report by Sir Otto Niemeyer, Government of India, 1936)

At last in the budget (1934-35) the Government of India according to the suggestion of Indian Constitutional Reform (1933) took the decision that at least 50 percent of the net revenue from the jute export duty be assigned to Bengal. As government of Bengal was not completely happy with this arrangement and expected that gradually the percentage of the proceeds of the duty to be assigned to the jute producing Provinces would go up to favour the jute producing Provinces so as to give the Provinces the whole amount of net proceeds except what is retained by the Centre for research.

Bengal Provincial finance from Government of India Act, 1935 till Independence

Mounting deficit of the Provincial finances since the outset of depression and the resulting uncertainties on the recovery from the depression necessitated thorough enquiry into the financial position of both the Provinces and the Centre. Sir Otto Niemyer was appointed in January 1936 to make recommendations after reviewing the budgetary positions of the government of India and those of Provinces. The distribution of the proceeds from taxes on income, the assignment of net proceeds of jute export duties and grants in aid to the Provinces were mainly dealt with.

Sir Otto Niemeyer recommended the percentage of export duty on jute should be increased from 50 per cent to 62 ½ in favour of the jute growing Provinces on the estimated gross yield of the duty in 1936-37. He recommended that 62 ½ per cent of the net proceeds from export duty on jute should be allocated among Assam, Bengal, Orissa, and Bihar in proportion to the percentage of jute production in each Province to the total jute production of these four Provinces. Sir Otto Niemeyer did not admit that the jute producing Provinces had any special claim to the proceeds of this duty. He justified his recommendation not by any such inherent right of those Provinces but only on the ground that they stood in need of financial assistance. However, Bengal was not completely satisfied with the arrangement for they demanded the whole portion of the proceeds from jute duty.

Similarly, Niemeyer recommended that 50 per cent of the net proceeds of the income tax should be assigned to the Provinces. This became the basis of vertical transfer under income-tax to the Provinces even after Independence and it remained at this level till it was raised to 55 per cent by the First Finance Commission, 1952. After taking into account various dimensions of the problem, Niemeyer concluded that "substantial justice would be done by fixing the scheme of redistribution partly on residence and partly on population".

It is, however, worth mentioning that some scholars of Bengal demanded that share of income tax should not be based on population but on contribution each Province makes. They argued that about 36.2 percent of the total income tax raised in India came from Bengal (table 38). So Bengal would be able to receive its legitimate share if the distribution of proceeds from income tax should bear close relation to the actual amount received from each Province.(Mitter,1934, p. 676) Interestingly enough, the idea was later picked up by the West Bengal Government after Independence.[51] Memorandum submitted before the Finance Commissions by the Congress Governments of West Bengal (until the Sixth Finance Commission, 1973) bear the testimony to this conviction. However, First Finance Commission, 1952 strongly opposed this idea. It seems that until early 1970s when Bengal managed to retain its position as an advanced industrial State and was in a position to contribute more in the form of income tax, the demand for distribution of proceeds from income on the basis on contribution gained support. This area will be discussed in detail in chapter 2 of this study.

Table: 38
Income Tax Collected From Different Provinces in 1929-30

Provinces	**Income tax collected (In Crores of Rs.)**	**Percentage share of income tax**
Madras	**1.41**	**8.26**
Bombay	**3.69**	**21.62**
United Provinces	**0.90**	**5.27**
Punjab	**0.64**	**3.75**
Bengal	**6.18**	**36.22**
Total	**17.06**	**100.00**

Source: Mitter, S.C, A Recovery Plan for Bengal, The Book Company Ltd. Calcutta, (year not mentioned), p. 676

However, despite being able to share the proceeds from income tax and jute export duty Bengal's comparative financial position did not improve until Independence. This is evident from table 39. Average per capita revenue of Bengal during the period of 1937-38 to 1946-47 was as low as Rs. 3.9 as against Rs. 10.7 in Bombay, Rs.5.7 in Madras and Rs. 6.9 in Punjab. It appears that Bengal did not manage to catch up with the other Provinces despite being able to share the proceeds from income tax and jute export duty following the recommendations of Otto Niemeyer since 1937 and was yet to be recovered from the deep-seated budgetary crisis inflicted during the years of depression in the 1930s.

With the new constitution introduced in 1937, budgetary deficits of Bengal were avoided for three years. But immediately thereafter World War II broke out and Bengal again began to face with large deficits. The threat of bombing by the Japanese caused a large exodus from Calcutta—main centre of trade and business activities of the Province. In addition, the

[51] At the time of the First Commission, the government of West Bengal took an extreme position when it claimed that 'each state should get back out of the net proceeds attributable to it the percentage share assigned to the States as a whole'. It contended that the money raised in one state could not be made available to another state. In its view the duty of the Finance Commission was merely to determine the central share in this tax and 'place the balance in the hands of the government in whose respective territories the tax had been levied or to whom they were attributable. (Vithal, B.P.R & Sastry, M.L, Fiscal Federalism in India, Oxford University Press, New Delhi, 2001, p. 93)

famine of 1943 and great Calcutta killing of 1946 also constituted great drain on the finances of the Province. Thus the result of all these had adverse impact on the economy of the Province. An estimation shows that business in the Province and hence income tax collection from the Province went down drastically because of the aforementioned occurrences. (Memorandum on Allocation of Income-tax and Grant-in-aid in Lieu of Jute export duty, Prepared for Sir. C.D Desmukh, GOWB, 1950, p. 64) Moreover, with the outbreak of World War II, share of income tax of the Provinces was reduced in order to cope with the increased expenditure of the Central government on account of the War[52] and the original Provincial share of income tax as recommended by Niemeyer was restored again in 1950-51. Such reduction of income tax share of the Provinces might have had some adverse effect on other industrial Provinces including Bengal.

After Independence West Bengal appeared to have improved its position compared both in comparison to other states and previous years. Between 1950-51 and 1951-52 per capita revenue of West Bengal was the highest of all States except Bombay. (table 39) However, West Bengal could not manage to retain its supremacy for more than two decades after Independence and started declining in terms of all most all economic indicators thereafter. Inherent structural constraints and weakness of its economic base coupled with Central policies pursued after Independence seem to be the main reasons for such deterioration. These eventually have given rise to the feeling of being disfavoured or discriminated against. (the term 'discrimination' started being widely used after Left Front Government came to power in 1977) Consequently it was alleged that during tthe pre-Independence days Bengal was for other Provinces and for the Imperial government and such tradition continued even afterwards when West Bengal's wealth and comparative advantage continued to be taken away and was utilised for the benefit of other Provinces, particularly, Bombay later on Maharastra and the Centre. Therefore, West Bengal has been experiencing continued wealth drain which is the main reasons for its economic deterioration. (Roy, R, The Agony of West Bengal A Study in Union-State Relations, New Age Publishers Private Limited, Calcutta, 1971) We will like to turn on to this area in the chapter 2 of this study.

Table : 39

Per Capita Revenues of Part A and Part B States Between 1937-38 and 1951-52 (Rs.)

[52] The outbreak of World War II necessitated huge expenditure particularly on defence and underlined the need to strengthen Central finances. "Accordingly it was decided that for the duration of the war the centre should be allowed to retain a fixed sum of Rs. 4.5 crore out of the Provincial share of income tax. The Order-in-Council was amended for this purpose and the modified provision regulated the distribution of the income tax from 1940-41 to 1945.-46. In each of the following four years the sum retained by the centre from the provincial share was reduced by Rs. 75 lakh a year over the previous year and the full Provincial share was restored to the provinces in 1950-51." (Gurumurthi, S, Fiscal Federalism in India Some Issues, Vikas Publishing House, New Delhi, pp. 18-19)

States/Provinces	Average 1937-38 to 1946-47	1950-51	1951-52 Provisional figures
Assam	4.3	11.0	12.5
Bihar	2.5	7.2	7.0
Bombay	10.7	16.8	16.8
Madhya Pradesh	4.3	9.1	10.8
Madras	5.7	10.2	10.5
Orissa	3.0	7.1	7.9
Punjab	6.9*	13.4	14.1
Uttar Pradesh	3.7	8.2	8.6
West Bengal	3.9*	13.8	15.6

Source: Report of the Finance Commission, Government of India, 1952, pp. 58-59
***Figures relate to the undivided Provinces**

Conclusion

Complaint of discrimination against erstwhile Bengal and now West Bengal has the early root and can be traced as far back as to the pre-Independence period when Bengal was said to be mother of all Provinces and also helped to consolidate the British Indian empire in the early days of colonial period. However, in order to extract maximum revenue from land with certainty and regularity while incurring the lowest cost of collection, required for financing ongoing war and for meeting other administrative expenditures, Permanent Settlement, 1793 was introduced. This eventually caused enormous inelasticity of Bengal's principal source of revenue i.e., land revenue. Evidently, such inelasticity of land revenue became a major handicap for local infrastructural improvement. Not only that the land revenue per head in Bengal was almost the lowest since the later part of 19th century, proceeds from local cess for local purposes which was imposed on land as a part of decentralisation pursued by Lord Mayo in 1871, was also quite low in Bengal. Consequently enhancement of agricultural productivity through expansion of irrigation and other rural developmental schemes were stalled in Bengal.

Resource crisis of Bengal Province was accentuated further with the introduction of Government of India Act 1919 under which proceeds from income tax, ever expanding source of revenue of industrially advanced Bengal and customs duty, another important source of Bengal's revenue (due to its monopoly in jute products, bulk of which got exported) were kept under the Imperial head leaving Provinces only with the inelastic land revenue and minor other sources of revenue which were less buoyant in nature. Owing to the inadequacy of funds nation building services, infrastructural development of Bengal got affected severely leading to further resource crisis of Bengal. Such historical factors laid the foundation of economic distress of Bengal which had considerable impact on the economy of Bengal even in the post-Independence period.

The period under study may be divided mainly into two periods i.e., the pre-Government of India Act, 1919 and the post. During the Pre-Government of India Act period, from time to time Bengal intelligentsia launched the complaint that the Province was discriminated against as far as public investment in irrigation was concerned. A meagre allocation of irrigation investment to Bengal had considerable impact on the agricultural wealth and hence land revenue which was the major source of revenue until early part of the 20th century. On the other hand the counter argument was that the allocation of higher level of public investment to a particular Province should be contingent on the contribution it makes. And so far land revenue and local taxes per head remained much lower in Bengal compared to other Provinces particularly since the later part of the 19th century. Consequently, the major burden of taxation had to be borne by other Provinces Furthermore, increment of income consequent upon irrigation investment could not be appropriated by the state while the land revenue was made fixed in perpetuity under the Permanent Settlement. In response to that argument Bengal intelligentsia and also the Bengal government emphasised on the fact that contribution of a particular Province should be judged in terms of totality of its past contribution rather than what is being contributed in present days. It was Bengal who financed for the expansion of British territory and consolidated their rule in India and fed other Provinces. Therefore, the allocation of public investment particularly in irrigation should be based on the total contribution made by the Province.

However, during the post-Government of India Act period the discrimination against Bengal became much more apparent than before. Bengal being the highest contributor in the Central exchequer in the form of customs duty and income tax was denied any share of it. Instead Bengal had to rest content with land revenue which was a quite inelastic form of revenue. Consequently Bengal demanded adequate compensation and privilege and finally complete abolition of the Government of India Act, 1919. However, during the post- Government of India Act 1919 period some scholars argued that Bengal should stop demanding further privilege and compensation for Bengal had so far been the most privileged Province by way of not contributing due share of revenue to the Central exchequer. These scholars perceived the Government of India Act, 1919 as a remedial measure of the long standing injustice made to other agricultural Provinces while these Provinces, as argued by them, contributed more than their due share so far.

The financial health of Bengal started deteriorating with the beginning of economic depression of 1930s. Which gave rise to the feeling of being discriminated more intensely than ever before. It was complained that Imperial government as well as other Provinces were being benefited at the expense of Bengal. There was a continuous drain of wealth from the Province since the early part of the colonial days without giving it anything in return.

It was, however, true that Bengal was subject to the highest form of exploitation and extraction of wealth and was the worst victim of commercial penetration made by British financiers since early days of colonial rule. And also the evolution of Imperial-Provincial finance during the entire British period revealed that the colonial government was not guided by any egalitarian motive. It neither paid adequate attention to the need of the different Provinces nor did it take into account the ability of Provinces to cope with the financial reform. Different Imperial-Provincial financial system were undertaken from time to time in order to meet the immediate need and urgent situations. Therefore, there was no well-thought out Plan. Different Imperial-Provincial financial systems were exercised on an ad hoc manner without paying much attention to redressing the ever widening regional imbalance in British India.

The same is equally true for the distribution of public investment among different regions. Distribution of public investment, like different experiments as regards Imperial-Provincial finance, were taken up according to the need of British capital and expansion of British territory. And such unequal distribution of public investment is said to be the major reason for the deep-seated regional imbalance not only during the pre-Independence period but also in the post-Independence period. Therefore, the problem of federal finance of Bengal should be perceived both in the perspective of overall regional imbalance existing in British India as well as Province (Bengal)-specific particularities which made the Province concerned suffer more than other Provinces.

Appendix

Table: 1
Percentage Trend of Different Revenues Between 1858 and 1929

Year	Land Revenue	Customs	Excise	Income-Tax
1858	50.0	7.7	3.0	-
1880	29.5	3.3	4.1	0.6
1900	23.2	4.3	5.1	1.7
1914	26.0	7.7	10.8	2.4
1929	18.8	31.2	11.2	9.1

Source: Thomas, P.J, The Growth of Federal Finance in India, Oxford University Press, 1939 p. 4

Table: 2
Trend of Major Revenues Between 1921-22 and 1935-36

Year	Customs	Taxes on Income	Land Revenue	Excise
1921-22	18.5	11.9	18.7	9.2
1922-23	20.9	9.2	17.9	6.8
1923-24	18.7	8.7	16.4	9.1
1924-25	20.9	7.4	16.3	8.9
1925-26	21.6	7.3	16.1	9.0
1926-27	21.7	7.3	15.9	9.0
1927-28	21.8	7.0	16.8	8.9
1928-29	22.3	7.7	15.0	9.0
1929-30	22.5	7.5	14.2	8.3
1930-31	22.5	7.8	14.5	8.0
1931-32	22.6	8.5	16.1	7.2
1932-33	23.7	8.5	14.7	7.0
1933-34	23.3	8.4	14.8	7.4
1934-35	24.1	8.4	14.7	6.8
1935-36	25.7	8.1	15.3	7.2

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committe

Table: 3
Percentage of Expenditure on Education in Different Provinces Between 1921-22 and 1935-36

Year	Bombay	Bengal	Punjab	Madras
1921-22	12.1	9.5	--	11.2
1922-23	13.6	12.0	--	12.2
1923-24	14.7	12.6	--	13.0
1924-25	13.9	10.2	--	13.1
1925-26	14.1	12.7	11.4	13.7
1926-27	14.2	12.4	12.5	14.0
1927-28	15.3	12.8	12.4	14.8
1928-29	15.3	12.8	13.07	16.3
1929-30	15.5	12.6	15.2	15.7
1930-31	15.7	12.4	16.0	16.8
1931-32	15.4	12.2	14.8	15.0
1932-33	14.7	11.8	14.7	15.6

1933-34	**15.0**	**11.7**	**15.2**	**15.5**
1934-35	**14.9**	**11.5**	**15.4**	**15.3**
1935-36	**14.6**	**11.3**	**15.1**	**15.4**
1936-37	**--**	**11.5**	**13.6**	**15.3**

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committee, 1938

Table: 4

Percentage Expenditure on Scientific Departments in Different Provinces Between 1921-22 and 1936-37

Year	**Bombay**	**Bengal**	**Punjab**	**Madras**
1921-22	**.07**	**.01**	**--**	**.1**
1922-23	**.05**	**.02**	**--**	**.1**
1923-24	**.05**	**.03**	**--**	**.1**
1924-25	**.05**	**.02**	**--**	**.1**
1925-26	**.05**	**.03**	**.02**	**.2**
1926-27	**.04**	**.1**	**.05**	**.2**
1927-28	**.04**	**.02**	**.02**	**.2**
1928-29	**.03**	**.02**	**.02**	**.2**
1929-30	**.04**	**.02**	**.02**	**.2**
1930-31	**.04**	**.03**	**.02**	**.2**
1931-32	**.04**	**.03**	**.02**	**.1**
1932-33	**.05**	**.03**	**.02**	**.1**
1933-34	**.05**	**.03**	**.02**	**.1**
1934-35	**.05**	**.03**	**.02**	**.05**
1935-36	**.04**	**.03**	**.03**	**.03**
1936-37	**--**	**.02**	**.02**	**.05**

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committee, 1938

Table: 5

Percentage Expenditure on Agriculture in Different Provinces Between 1921-22 and 1936-37

Year	Bengal	Bombay	Punjab	Madras
1921-22	1.6	2.04	--	2.0
1922-23	2.1	1.8	--	2.1
1923-24	1.9	1.8	--	2.1
1924-25	1.5	1.9	--	2.1
1925-26	1.9	1.9	3.3	2.2
1926-27	2.0	1.9	3.9	2.3
1927-28	2.0	2.05	4.3	2.3
1928-29	2.3	2.1	4.5	2.4
1929-30	2.2	2.1	5.3	2.5
1930-31	2.3	2.2	5.3	2.5
1931-32	2.2	2.2	4.5	2.5
1932-33	2.2	1.9	4.6	2.3
1933-34	2.1	2.8	4.3	2.3

1934-35	2.1	2.09	4.5	2.4
1935-36	2.1	2.1	4.7	2.4
1936-37	2.1	-	4.6	2.4

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committee, 1938

Table: 6

Percentage of Expenditure on Police in Different Provinces

Between 1921-22 and 1936-37

Year	**Bombay**	**Bengal**	**Punjab**	**Madras**
1921-22	**13.2**	**15.2**	**--**	**15.7**
1922-23	**13.4**	**18.3**	**--**	**16.2**
1923-24	**12.8**	**18.1**	**--**	**15.9**
1924-25	**12.8**	**15.3**	**--**	**15.0**
1925-26	**12.2**	**17.3**	**10.2**	**13.7**
1926-27	**11.9**	**17.1**	**9.4**	**13.2**
1927-28	**12.5**	**17.1**	**8.6**	**12.8**
1928-29	**12.9**	**18.0**	**9.2**	**12.1**
1929-30	**13.08**	**18.5**	**10.5**	**12.0**
1930-31	**14.4**	**19.3**	**10.8**	**10.2**
1931-32	**14.09**	**20.1**	**10.5**	**10.6**
1932-33	**14.8**	**20.5**	**11.5**	**10.5**
1933-34	**14.4**	**20.5**	**11.8**	**10.0**
1934-35	**14.3**	**20.2**	**11.9**	**10.0**
1935-36	**14.08**	**19.9**	**11.5**	**10.0**
1936-37		**19.7**	**10.6**	**9.7**

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress Political and Economic Studies-No. 8, Political and Economic Information Department of All India Congress Committee, 1938

Table: 7
Percentage Expenditure on Jails and Convict Settlements
Between 1921-22 and 1936-37

Year	**Bombay**	**Bengal**	**Punjab**	**Madras**
1921-22	**2.1**	**3.0**	**--**	**2.3**
1922-23	**2.1**	**3.5**	**--**	**3.1**
1923-24	**1.9**	**3.3**	**--**	**2.5**
1924-25	**1.9**	**2.7**	**--**	**2.2**
1925-26	**1.8**	**3.0**	**1.9**	**2.2**
1926-27	**1.7**	**2.9**	**2.7**	**2.0**
1927-28	**1.8**	**3.1**	**3.0**	**2.1**
1928-29	**1.8**	**3.0**	**3.07**	**1.9**
1929-30	**1.8**	**3.0**	**4.5**	**1.9**
1930-31	**2.1**	**3.9**	**3.7**	**1.7**
1931-32	**1.7**	**3.4**	**3.2**	**1.5**
1932-33	**2.1**	**3.8**	**3.2**	**1.4**
1933-34	**1.9**	**4.0**	**3.1**	**1.3**
1934-35	**1.8**	**3.9**	**2.9**	**1.3**
1935-36	**1.7**	**3.8**	**2.8**	**1.3**
1936-37	**-**	**3.7**	**2.5**	**1.3**

Source: Ahmad, Z.A, Public Revenue and Expenditure in India, Congress

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Department of All India Congress Committee, 1938

Chapter: 2

Political Economy of the Federalising Process in West Bengal and the Feeling of Discrimination During the Pre and Post-Left Front Era

Centre-State relation has undergone a qualitative change in West Bengal since Independence. From the very onset, it was never free from conflict and most of the time fraught with tensions. First three decades after Independence was the period of consensus and non-antagonism owing to the existence of one Party system[53] 'in which power was shared between the Centre and States under the control of the ruling Congress Party'. Though some underlying conflicts were there, they were sought to be resolved outside the Constitution without allowing such contentious issues come to the surface.[54] Against the backdrop of such absolute, unchallenged centripetal bias of the Centre-State framework, relation between the Centre and West Bengal in particular, until the mid 1960s, was relatively more conflict-prone than any other State in India. West Bengal often managed to retain an independent position by pursuing it's decisions regarding some issues without giving in to the pressure of the Centre.[55] Thus, it was of great difficulty for the Centre to impose its will on

[53] As Sathyamurthy (1989) observed, this was the period of "linguistic/cultural differentiation within a framework of unchallenged unity and integrity of the Indian state (1947-67)....By and large however, federal India during the period 1947-67, was characterised by political homogeneity. The power of the state, as indeed power in the states was wielded by the same political force represented by the Congress. No great conflict had yet surfaced...." (Sathyamurthy, T.V, 'Impact of Centre-State Relations on Indian Politics An Interpretative Reckoning 1947-87', EPW, September 23, 1989, pp. 2133- 2135)

[54] It was mentioned in the report of the Administrative Reform Commission that owing to the existence of one Party system there was a strong tendency to avoid conflicts regarding Centre-State relation and there was hardly any provision to resolve this problem systematically at the constitutional plane. Frequent recourse to unconstitutional means to solve the problem, however, undermined the aspiration of true federalism in India. (Ghosh, M,(ed.), "*Kendra Rajya Samparka*" (Centre-state relations), A. Mukerjee & Company Private Limited, Calcutta, 1978, pp. 2-3)

[55] The Study undertaken by Franda (1968) observed that as regards several issues such as dispute arising from reorganisation of the boundary of two States, Bihar and West Bengal through setting up of State Reorganisation Commission, 1953 and conflict of interests between these two States consequent upon establishment of Damodar Valley Corporation,1948, it was the West Bengal State Congress leaders who had the ultimate say on this matter. Similarly any attempt of imposing Centre's decision regarding establishment of standardised land reform policy regulation during 1950s faced stiff resistance from the State Congress leaders and eventually their wish established. He concluded, "....perhaps the most remarkable facet of centre-state relations in West Bengal is the fact that the bargaining process which takes place is not typically

West Bengal without having faced tough resistance. According to Franda's (1968) observation such relative independence of West Bengal compared to other States emanates from it's unique social, political and economic history. (Franda,1968, pp. 201-224)

Nevertheless, West Bengal's leadership didn't rebel against the Centre fundamentally during the first three decades after Independence. They were critical but co-operative. From time to time they made bargains about operational aspects of the existing federal provisions whenever felt necessary but didn't oppose the existing relations per se by going against the Constitutional framework. Therefore, it was neither total absence of differences nor it raised fundamental question against the federal system itself[56].

However, the style of bargaining underwent a sea change soon after the United Front government[57] took charge in 1967 ushering in two fundamental changes. For the first time, pre-existing tensions in the area of Centre-State relations became an issue of political mobilisation which was a clear shift from the earlier period. And secondly, instead of remaining confined to the operational aspects of federal fiscal relations it started questioning the structural mould of the Indian federation.(Ray, 1973, p. 180) These two radical changes could be understood against the backdrop of a considerable change of power balance in the national polity during that period. The period, beginning from the late 1960s, marked the emergence of regional parties in the national polity which reached it's culmination in 1977 when for the first time a non-Congress (I) coalition government was formed at the Centre along with formation of governments in different States of India led by some regional parties around the same period. This breakdown of one party domination in Indian politics created a conducive environment for the questions against structural aspects of Centre-State relations and the consequent demand for change of power balance in favour of the States.

Memorandum on Centre-State Financial Relations, December 1, 1977 was probably the first articulated attempt by the Communist Party of India (Marxist) CPI(M) to consolidate the demand for radical restructuring of the existing Centre-State relations through amendment to the Constitution. In the national context a similar attempt was first made by Rajamannar Report (1968) commissioned by Tamil Nadu government. Subsequently,

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characterised by "submission", or by authority relationships...", (Franda, M.F, West Bengal and the Federalising Process in India, Princeton University Press, Princeton, New Jersey, 1968, p. 199)

[56] Ray (1973) observes that at that time, during B.C. Roy's (the then Chief Minister of West Bengal) regime the demands of the State were mainly confined to the traditional areas of Centre-State financial relations and didn't go against the constitutional verdicts. At times certain intensity was generated but it was not allowed to transpire into agitational politics. (Ray, A, "Political Dynamics of India's Federalism: West Bengal's Experience" in Maheshwari, B.L (ed.) Centre-State Relations in the Seventies, Minerva Associates, Calcutta, 1973, pp. 177-193)

[57]United Front government was basically a short-lived (1967-69) anti Congress coalition government led by the Communist Party of India Marxist (CPI M).

Administrative Reform Commission, Report on the Study Team on Centre-State Relationship, 1968 also came up. The next considerable step in this line was taken by the government of India. However, growing importance of non-Congress (I) political parties at the State levels as well as at the Centre and the consequent conflict building on the Centre-State relations necessitated substantive review of the Indian federal structure. Sarkaria Commission, 1984 was set up by the government of India in an attempt to review the existing Centre-States relations thoroughly. Ray & Kincaid (1988) viewed these initiatives as the outcome of a second generation strain on the Indian federal system. They went on to say that, "...this strain originates from a redefinition of the demand on the structural change of the India's federation rather than reinforcing constitutional restraints on national government".[58]

However, in West Bengal the United Front government laid down the foundation of the demand for constitutional change in the federal structure of India during the short duration of their rule. Subsequently, they took this demand to the street for political mobilisation which was further crystallised during the Left Front regime since 1977. In course of time, another dimension of the problem opened up during the Left Front regime in West Bengal which could be termed as a new form of regionalism[59] embodied in

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[58] The first generation of Indian federation lasted till 1966. During the first generation a major part of the 'State demands was directed towards reinforcing constitutional restraints on the national government'. And it was only confined to the functional aspect of federalism. For example, many States voiced their concern about the growing importance of Planning Commission a non-constitutional body over the Finance Commission which is a constitutional body. However, during the second generation which commenced from the late 1960s, many State governments and political parties (see also Maheswari B.L, ' Centre-State Relations Issue Awareness and Party Positions', EPW, June 12, 1971) emphasised on bringing about structural changes in Indian federalism. Therefore, since the late 1960's the State governments, especially those controlled by non-Congress(I) political parties had formulated their demands for changes in the Constitution that would secure more power and autonomy to the States. (Ray, A & Kincaid, J, ' Politics, Economic Development and Second Generation Strain in India's Federal System', Publius, Journal of Federalism, Vol. 18, No. 2, 1988, p. 152)

[59]Ray (1973) observed that in Bengal, since the pre-Independence days radicalism and regionalism was mixed up in a vigorous manner. The partition of Bengal and consequent adversities faced by West Bengal strengthened the feeling of regionalism. And people of West Bengal resented the Centre's neglect to the problems of the State. Interestingly enough any conventional regional party like DMK in Tamil Nadu was unlikely to have any appeal to the people of West Bengal who are said to be highly politicised and modernised. Therefore, Communist Party of India (Marxist) suited best in West Bengal which seemed have combined regionalism with radicalism. (Ray, A, 'Political Dynamics of India's Federalism : West Bengal's Experience', in Maheshwari, B.L, (ed.) Centre-State Relations in the Seventies, Minerva Associates, Calcutta, 1973, pp. 177-178)The observation made by a political activist also reinforces this point. He felt that the demand for more power to the State and fight against the Centre "often borders on the nationalist propaganda that Bengal and the Bengalis are deprived of their due share, and co-operation is sought even from the Congress (I) MPs and MLAs from West Bengal to fight against the Centre for Bengal's interest". (Vinod Mishra Selected Works, A CPIM(L) Publication, New Delhi, 1999, p. 320) (The Article was written on January 1988), the phrase ‘discrimination against West Bengal’. West Bengal has been singled out from the rest of the Indian federation by the government and it was alleged that the State has been subject to discrimination for Communist rule so far as Centre-State relations is concerned.[60] Thus, the issue of imbalance of power in the Indian federal structure has become a part of the political weaponry and consequently all the maladies and lacunas in the Centre-State relations and consequent impact on the State have been identified with the term ‘discrimination’ against West Bengal.

The complaint of discrimination against the erstwhile Bengal and now West Bengal has its early root. It can be traced as far back as to the pre-Independence period when Bengal was eventually made to suffer for the sake of British expansion and for the benefit of other Provinces. In order to extract maximum revenue from land with certainty and regularity while incurring lowest cost of collection, Permanent Settlement, 1793 was introduced which eventually caused enormous inelasticity to Bengal’s principal source of revenue. This inelasticity of land revenue became a major handicap for local infrastructural improvement and enhancement of agricultural productivity through expansion of irrigation. Resource crisis of Bengal Province accentuated further with the introduction of the Government of India Act 1919 in which proceeds from income tax an ever expanding source of revenue of industrially advanced Bengal and customs duty, another important source of Bengal’s revenue due to it’s monopoly in jute products, bulk of which got exported, were kept under the Federal head leaving Bengal only with inelastic land revenue. Owing to the inadequacy of funds nation building services and infrastructural development of Bengal got severely affected which led to further resource crisis of Bengal. Such historical factors laid the foundation of economic distress of Bengal which had considerable impact on the economy of Bengal in the post-Independence period.

From time to time the Bengal intelligentsia protested against such a discriminatory situation and demanded necessary amendment. British India’ fiscal history could be divided mainly into two periods i.e., pre-Government of India Act, 1919 and post. During the Pre-Government of India Act period Bengal started complaining that the Province was discriminated against as far as public investment in irrigation is concerned which had considerable impact on the buoyancy of land revenue and was the major source of revenue until the early 20th century. Those who opposed to this argued that since per head land revenue and local taxes was much lower in Bengal compared to the other Provinces the major burden of taxation was actually borne by other Provinces. That apart, Bengal should stop complaining about lower investment in irrigation because rate of return on irrigation investment and per capita local taxation was much lower in Bengal from which irrigation schemes were

[60] Political Organisational Report of the CPIM stated “CC (Central Committee) explains the background of discrimination against WB (West Bengal) by the Centre because of the existence of the LF (Left Front) government and the earlier policies which militated against the industrial development in the State such as the freight equalisation and the partisan use of licensing policy.” (Political and Organisational Report of the 15th Congress of the Communist Party of India (Marxist); quoted in Liberation, Central Organ of CPI (ML), June 1996, p. 21)

supposed to be financed. In addition increment of income consequent upon irrigation would not be accrued to the state while land revenue being fixed in perpetuity on account of Permanent Settlement. Bengal's intelligentsia argued that Bengal's contribution should be judged in terms of past contribution rather than it's present. It was Bengal who financed the expansion of British territory and consolidated their rule in India and also fed other Provinces. During the post-Government of India Act period the discrimination against Bengal became much more intense than even before. Bengal being the highest contributor in the Central exchequer in the form of customs duty and income tax was denied of any share of it. Instead Bengal had to rest content with land revenue which was quite an inelastic form of revenue.

Interestingly, the feeling of being disfavoured was continued during the post-Independence period. Bengal suffered considerably in the past due to wrong principles adopted during the pre-Independence period and West Bengal had to suffer after the Independence period on account of misconceived notion of regional equality which tends to equalise rest of the Indian States at the expense of West Bengal. There seems to be continued drain of wealth or transference of income from the erstwhile Bengal and later West Bengal to other States as well as to the Central exchequer. The result is the peculiar paradox that wealth generated in West Bengal benefits other States while creating additional problems and liabilities for the government of West Bengal. (Memorandum Submitted to Third Finance Commission, GOWB, 1961 p. 25)

In pursuance of the study of politics of discrimination against West Bengal until the pre-Left Front period[61], three aspects need to be considered. Firstly, basic structural lacuna of West Bengal's economy which has its early root in the pre-Independence period which had left deep-seated remnants in its economy and consequently had limited its own resource mobilising power even after the post-Independence period. We have touched this area precisely at the earlier part of this study. Secondly, successive Central policies taken shortly after Independence which, as alleged by the different governments of West Bengal, (Congress, United Front and later on Left Front) had accentuated the economic constraints of the State further. Finally, during the following three decades after Independence, Congress government of West Bengal had raised the questions of faulty application of constitutional provisions concerned with resource transfers from the Centre to the Sates. Which was said to have further affected West Bengal's resource base considerably. Thus the present study would only remain confined to the incorrect application of constitutional provisions for devolution of resources from the Centre to the States and States per-se. Subsequent part of our study would deal with the last two aspects mentioned above.

Politics of discrimination during the pre-Left Front era

[61] It should be noted that after the breakdown of the United Front government, West Bengal was ruled by the Congress Party again during 1970-77 until Left Front came to power.

Conflict between the Centre and West Bengal government during the pre-Left Front era could be classified into two main categories, one related to the series of discriminatory[62] Central policies. Another one was related to basic problem regarding fiscal federal relations in India and the role of two resource transferring agencies- the Finance Commission and the Planning Commission. The weightages chosen by these two institutions for devolving funds among the States were targets of the sharpest criticism. It was, argued that not only particular weightages chosen for devolving funds were incorrect but also the very practice of attaching weightages while devolving funds from the Centre among the States per se is unconstitutional. It was also felt that such incorrect application of weightages in the devolution of funds circumscribed resource mobilisation potential of the State further and was the root cause of economic deterioration of the State.

Discriminatory Central policies after Independence

Soon after Independence the Provincial shares of jute export duty and income tax set by Niemeyer Award in 1937, were altered. With the Partition of India in August 1947 the following States namely Punjab, Bengal and Assam were divided. This necessitated certain adjustments in the scheme of redistribution of income tax and jute export duty among the Provinces. While the basic scheme of Sir Otto Niemeyer with regard to income tax was retained, the shares of the divided Provinces of Bengal and Punjab were reduced in proportion to the population reduced in these two States owing to Partition. Many States including West Bengal were not satisfied with such arrangements for the allocation of income tax by the government of India immediately after the Partition and protested against this decision. It was decided that the matter should be referred to an important authority for reconsideration. Towards the end of 1949, C.D. Desmukh, a senior civil servant was appointed by the government of India to enquire into this matter. Table 1 (see Appendix) indicates the percentage distribution among the States of their share of income tax before the Partition, under the arrangement made by the government of India immediately after the Partition and under the award given by Desmukh. However, the Desmukh award which came into existence in 1950-51 remained in force until the recommendation of the First Finance Commission, 1952.

Admittedly, West Bengal suffered a lot due to the reduction of its share of income tax (from 20 percent to 12 per cent) which was one of most expanding and buoyant sources of revenue in the State. It was argued that other States and the Centre were benefited at the cost of West Bengal because Bombay's share was pushed up from 20 per cent to 21 per cent and the share of Madras was also went up from 15 per cent to 18 per cent in the same period. Therefore, "The money saved at the cost of West

[62] The term 'discrimination' was also used during this time without having too much fixation of this expression. Instead it was perceived as a situation where West Bengal was victimised for not giving adequate consideration while pursuing these Central policies. As a matter of fact these policies were said to have adverse effect on the eastern region as a whole including West Bengal.

Bengal enabled almost all other States to get more. The Partition of Bengal was, in respect of the jute duty and income tax, turned into a windfall for other States and the Centre." (Roy, 1971, pp. 33-34) However, on the basis of population as well as collection, Bengal's share of income tax should have been much more than that of Bombay as Bengal's population was three times higher than Bombay. Banerjea too mentioned that as a result of Partition West Bengal's contribution to the income tax fell by only 1/80th. Therefore, West Bengal's share should have been cut by no more than a quarter per cent. However, the actual reduction was 40 per cent. (Roy, 1971, pp. 33-34)

After the partition roughly 70 percent of the jute growing area of undivided India went to Pakistan. The government of India therefore reconsidered the distribution of the proceeds from the jute export duty among the Provinces on the basis of the quantity of the jute grown in these Provinces. Consequently, after Independence the Provincial share of jute export duty was reduced from 62 ½ to 20 per cent which affected West Bengal substantially owing to the fact that erstwhile Bengal or later West Bengal was the largest recipient of the proceeds from jute export duty. Afterwards although additional ad-hoc grants of Rs. 40 lakhs in 1947-48 and of Rs. 50 lakh each in 1948-49 and 1949-50 were made to West Bengal in consideration of the difficulties caused to it by the Partition, the decision of reduction of the Provincial share of jute export duty gave rise to severe dissatisfaction within West Bengal government. (Indian Finances, Monograph No. 123, *Arthya Vanijya Gabeshna Mandir*, Calcutta, year is not mentioned, p. 11)

Moreover, the Centre urged West Bengal to divert paddy land to jute cultivation, in order to make good the shortage in the supply of raw jute as a result of loss of the jute growing eastern zone of undivided Bengal to Pakistan.[63] Thus the switch over from *Aus* paddy to jute after the Partition was said to be the root cause of the problem of food deficit in the State which in turn led to the rise in the prices of food grains in the State. During the Second Plan period (1956-61) production of food grains increased by 5 per cent in West Bengal as against the average all India increase of 15.6 per cent. (Memorandum Submitted to Third Finance Commission, GOWB, 1961, p. 25) On account of chronic food shortage, the administrative cost of the State incurred on rationing, cordoning etc. went up leaving little fund for other nation building services. Food deficit necessitated import of food grains from other States. But notwithstanding the recommendations of the Agricultural Price Commission other agriculturally prosperous States have been resisting all through all attempts at lowering the prices of wheat or cotton. (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 20)

[63] After the Partition 'grow more jute programme' was initiated by the government of India in an attempt to resolve the immediate crisis faced by the jute industry. The problem was aggravated by two set of policies. One was the imposition of an export duty by Pakistan government on her exports of raw jute to India and another one was that the rise in the value of the Pakistan rupee in terms of Indian currency due to devaluation of Indian currency. (Singh, V.B, Economic History of India: 1857-1956, Allied Publishers Private Limited, New Delhi, 1965, p. 275)

Despite the high density of population and fullest utilisation of the available land resources, production of jute in West Bengal had to be increased and the acreage under jute cultivation rose from 2.66 lakh acres in 1947-48 to about 11.44 lakh acres in 1961-62. (Memorandum Submitted to Fifth Finance Commission, GOWB,1969, p. 7). One estimation regarding State-wise utilisation of available lands shows that percentage of net area sown to total geographical area of the State was as high as 59.1 per cent in 1956-57 which was the highest among the other States except Uttar Pradesh (60.1 per cent). (Memorandum Submitted to Third Finance Commission, GOWB,1961, p. 63)

Distress of West Bengal was further accentuated due to the following adversities: the grant in lieu of jute export duty was stopped after some period[64] and much to the detriment to the jute industry, the price of jute even after the formation of the Jute Corporation of India barely covered the cultivation cost. Devaluation of rupee in 1966 could have brought some relief to the jute industry in the State, but rise in export duty on jute further lowered the profit that could have been earned from raw jute. (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 20)

The government of West Bengal alleged that jute and tea earned substantial amount of foreign exchange but the State had no control over the foreign exchange it earned. The benefit from the export from jute, jute products and tea the two foreign exchange earners of the country goes to the country. On the other the government of West Bengal had to face the difficulties of diversion of land for growing these commercial crops at the expense of production of food grains and bear the responsibility of providing basic infrastructuctural facilities to these industries. (Memorandum Submitted to Fifth Finance Commission, GOWB,1969, p. 7)

Freight equalisation policy

West Bengal was, however, one of worst victims of certain policies pursued by the government of India after Independence such as the freight equalisation policy and refugee rehabilitation policy. As Minister of Commerce & Industry and Iron & Steel, T.T Krishnamachari took the decision in 1956 to equalise the prices of iron and steel and coal all over the country and thus neutralised the locational advantage of West Bengal and other eastern States. Moreover, freight rate on cotton and oil seeds were not equalised which caused considerable harm to the industries of West Bengal related to these products. The detail of which will be discussed in

[64]According to Desmukh award the jute growing States were no longer entitled to a specified share of the net proceeds of the export duty on jute or jute products. Under the Article 273 of the Constitution the jute duty was assigned wholly to the Centre, the States of West Bengal, Assam, Bihar and Orissa were to receive grants-in-aid so long as the jute export was levied or for a period of 10 years whichever was earlier. (Indian Finances, Monograph No. 123, *Arthya Vanijya Gabeshana Mandir*, Calcutta, year is not mentioned, p. 13)

the subsequent part of this study. In 1956 T.T Krishnamachari equalised the cement prices also. Afterwards the cement industry became more profitable in the southern part of India on account the equalisation of freight rates of coal and steel along with cement. On the contrary West Bengal had to pay very high transport charges mainly because of increased freight rate while the State earlier used to get cement from Bihar and the transport charges were not very high.(Dutta, 1985, pp. 133-134) This selective freight equalisation policy coupled with other policies pursued by the government of India made the industrial prospects of West Bengal rather bleak.

Refugee rehabilitation policy

Following the Partition after Independence West Bengal being the largest recipient of the refugees in eastern region was severely affected in many respects (see table 2 Appendix). Such influx of refugees has been still continuing but now it is called infiltration. However, over 73 per cent of the refugees came to West Bengal and the concentration of refugees was so high in West Bengal that they accounted for nearly one-tenth of the population (Das, 2000, p. 15). In contrast, in the case of Punjab, a north-western State of India, the stream of migration on both sides not only gradually slowed down and almost ceased within a year or so but also in Punjab out-migration was greater than in-migration and making the problem somewhat easier for the authorities to deal. (Das, 2000, p. 16).

Several studies (Chakrabarti, 1999; Bose, 2000) observed that the Bengali refugees suffered greater discrimination compared to the West Indian refugees. The Central government declared that the policy towards the migrants in West Bengal was to provide relief through temporary accommodation in relief camps and not economic rehabilitation. It was expected that those who had left East Pakistan for fear of their lives, would return to their homes as soon as peace was restored. Thus there was no well thought out plan for rehabilitation for the refugees of West Bengal. (Sen, 2000, p. 57) In contrast the government of India accepted the policy of exchange of populations and property and the problem of rehabilitation was solved much efficiently and quickly in case of West Pakistan refugees.

The Central government policies for the two regions were not only different, but opposite. Nehru wanted to stop the influx of refugees by the pact of 1950 (Nehru-Liaquat pact, 1950). Inevitable outcome of the Pact was that it effectively stopped the outflow of the Muslims from West Bengal and facilitated the process of the return of the Muslim migrants from East Pakistan to their homes. While Muslim evacuees came back, there was hardly any out-migration of Hindus from West Bengal. (Chakrabarti, 1999, p.210). Since there was considerable level of non-cooperation showed to these displaced people by the Pakistani government. the Nehru-Liaquat Pact remained ineffective for those refugees who wanted to claim properties in the East Pakistan. In fact the External Affairs Ministry in November 1968, admitted that the Nehru-Liaquat Pact has all along been violated by

Pakistan. (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 21)

West Bengal government repeatedly raised the point before the successive Finance Commissions i.e., from the First to the Sixth about the burden placed on the government of sheltering, feeding and rehabilitating the refugees from erstwhile East Pakistan. And the Central assistance provided in connection with a problem of such magnitude was inadequate. The influx of refugees was the direct result of the Partition following Independence and the government of India recognised in principle that the cost of rehabilitation of these refugees should not be borne by the any single State government but should be met by the Central government. However, reality belied such conviction. The State had to incur considerable additional expenditure to meet the barest of necessities of these people. There was thus a gap between the amount of Central assistance provided for refugees and the actual expenditure incurred by the State government and the accumulated gap up to the early 1970s amounted to about Rs. 33 crore. (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 23) Though the expenditure should be borne entirely by the government of India but the Centre denied its responsibility in real life.[65]

The State government also pointed out that on account of sudden increase of the density of population in the State, the economic and civic conditions of the vast industrial complex of greater Calcutta started deteriorating. During the 10 years between 1951 and 1961, the rate of growth of population in West Bengal mainly on account of the influx of refugees was 32.94 per cent and was much higher than the all India average of 21.5 per cent. Therefore, except for Assam (34.30 per cent) the rate of growth of population in West Bengal was the highest in India. During the census of 1971 the percentage increase of population, however, registered a slightly slower pace i.e., 26.87 per cent. But it was still much higher than the all India average of 24.80 per cent. Population density in West Bengal in 1961 stood at 1,032 persons per square mile as against the all India average of 384 and was the highest in India except Kerala (1,125 persons per square mile))(see table 3 Appendix) (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 12). Evidently, there was a greater need of resources of the State for the development in all fronts of the economy due to the sudden increase in the density of population.

[65] In this respect West Bengal government recently commented that, "Even after 50 years of independence, there are major unresolved issues connected with rehabilitation of displaced persons from erstwhile East Pakistan. Of the total financial requirement of about Rs. 1726 crores necessary for comprehensive rehabilitation, not even 10 per cent has been obtained from the Centre over the year." (Basu, J (ed.) People's Power in Practice 20 years of Left Front in West Bengal, National Book Agency, Calcutta, 1997, p. 256)

Incorrect application of Constitutional provisions for devolution of resources from the Centre to the States

After Independence West Bengal government initiated a debate with the First Finance Commission (1952) on the principle of distribution of proceeds from income tax. By taking an extreme position in this respect, West Bengal government claimed that each State should receive what it contributes to the total income tax collection of the country and the State demanded that money raised in one State should not be made available to the other States. Therefore, according to the State "each state should get back out of the net proceeds attributable to it the percentage share assigned to the States as a whole." (Vithal & Sastry, 2001, p. 93) The State went on to say that "the duty of the Finance Commission was merely to determine the Central shares in this tax and 'place the balance in the hands of the Governments in whose respective territories the tax had been levied or to whom they were attributable'." (ibid. p. 93)

However, the First Finance Commission was of the opinion that the view of the West Bengal Government was untenable and stated. "The Constitution does not recognise that any state has a right to the income of tax collected or even arising in its area. A state acquires a right to definite amount of the divisible pool only after the manner of distribution has been prescribed by the President. ...in our view there is no question of considering the distribution of tax on the basis of returning to a particular State the whole or part of the collections in its area or on the basis of the States having a notional right to the concurrent levy of income tax." (ibid., pp.93-94)

Further, the government of West Bengal claimed that the criterion chosen by the Finance Commissions for the distribution of the proceeds from income tax and excise duties among the States are not only incorrect and injurious to West Bengal's economy but also attaching weight itself for devolving resources is unconstitutional. They had strongly demanded that each State should receive in accordance with its contribution and hence the criteria chosen for devolution of funds among the States are altogether irrelevant. The West Bengal government observed that there are two constitutional methods of transferring resources. First, through the sharing of taxes and second, through grants. Regarding sharing of taxes the State felt that the proceeds of taxes and duties should be distributed on the basis of attributability. (Memorandum to the Second Finance Commission, GOWB, 1956, p. 27) According to this proposition, a State should receive that amount of transfers which could have been levied and collected by that State if it had the power to levy those taxes. Such power, however, for the convenience of administration and uniformity of treatment was assigned to the Centre. Therefore, the distribution to the States of divisible Central taxes and duties should be mainly based on the contribution or collection of each State and such basis would fully compensate the State for foregoing the right to levy the tax. (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, pp. 3-4)

The debate regarding the criterion chosen for devolution of income tax

Being one of the advanced industrialised States-West Bengal is said to have been affected considerably by the incorrect criterion/weightages chosen by the Finance Commissions for devolving the proceeds from income tax among the States. The First Finance Commission (1952) expressed that the major factors, which in its opinion, should enter into an appropriate scheme for the distribution of income tax proceeds among the States were needs of the States measured by 'population' and also 'collection' or 'contribution' of each States to the total income tax collection. However, successive Finance Commissions from the First to the Sixth were twisting around attaching 10 or 20 percent to the 'contribution' principle and the remaining 80 or 90 percent to 'population' as a measure of needs of the respective State.

The question regarding the origin of income tax and consequently of how much weightage should be given to the contribution principle also became the centre of debate within the successive Finance Commissions. On one occasion the First Finance Commission mentioned that "a substantial part of the tax receipts accrues in respect of incomes originating beyond the boundaries of the respective states" (Memorandum to the Fourth Finance Commission, GOWB, 1965, p. 26) thus attaching major weight to contribution principle did not seem to have much ground to the Commission. Yet on an other occasion the First Finance Commission recognised the relevance of the factor of contribution in the distribution of a shared income tax and justified it on grounds that "It is pertinent to bear in mind the fact that there is all over the country a core of incomes-particularly in the range of personal and small business incomes-which could be treated as of local origin". (Memorandum to the Third Finance Commission, GOWB, 1961, p. 12) With this frame of hesitant mind the First Finance Commission, however, marked the beginning of attaching 20 per cent weight to the principle of contribution. And the remaining 80 per cent was attached to population factor as a measure of needs. This basic principle was more or less followed by all the successive Finance Commissions. Seemingly, they didn't want to break the tradition set by the First Finance Commission even though some were of the opinion that there may be case for greater weightage being given to collection in the restricted field of personal income tax.

According to the West Bengal government the contribution principle should receive greater weightage in devolving the proceeds from income tax since there was no doubt that the major part of the income tax was of the local origin. Therefore each State should receive what it contributes to the total income tax collection. Particularly after the introduction of Finance Act of 1956 which excluded corporation tax paid by companies from the divisible pool of income tax, contribution principle became more relevant than earlier. Because income tax collected from the companies which normally function beyond the territories of a particular State was excluded from the divisible pool of income tax and subsequently made the income tax completely of local origin. Afterwards, there would be hardly any justification, as felt by the State government, whatsoever for not distributing the State's share of the income tax entirely on the basis of the collection figures of that State.[66]At least there is a valid justification of attaching contribution and population principle on 50:50 basis. The award of Otto Niemeyer (1935) however, based on the principle of giving 50 per cent weightage to contribution and 50 percent weightage to population. Afterwards Expert Committee on financial provisions of the Constitution had recommended that 58 per cent weightage should be given to the contribution principle and the weightage to population should be 33 and 9 per cent should remain for adjustment. (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 125) In the changed context reversion to that old principle, as felt by the State, would be the only fair and equitable basis for distribution of the proceeds of income tax among the States.

Table 4 (see Appendix) indicates the State-wise percentage receipts of income tax share as against their contribution to total income tax collection during the period between 1958-59 and 1969-70. The figures speak for themselves. The government of West Bengal complained that industrial States like West Bengal, Maharastra suffered as a result of the insignificant weightage being attached to the factor of contribution. For example, in 1958-59, 1967-68, 1968-69 and 1969-70 percentage of receipts to income tax collection of West Bengal were 16.2, 51.3, 48.1 and 52.0 percent respectively. On the other hand industrially less developed States received more than what was collected within their territories. Therefore, Assam received 133.1, 134.7, 112.0 and 173.8 respectively in the above mentioned years. And Uttar Pradesh received 216.4, 200.5,171.7 and 198.3 respectively during the same period (table 4 see Appendix). Another estimation shows that while the Central government collected Rs.119 crores by way of corporation tax and income tax in 1962-63 from West Bengal, the State received back only Rs. 11.52 crores as its share of income tax (Memorandum to the Fourth Finance Commission, GOWB, 1965, p. 27) thereby leaving meagre sum for infrastructural development of the State. Greater weigthage given to collection factors

[66] Arguments against the adoption of the contribution principle for purposes of distribution, relied upon the fact that the activities of companies normally extend beyond the cities or the States where they had their headquarters. But as a result of the amendments made in 1959 which excluded the tax paid by the companies from the divisible pool of income tax, the substance of this logic seemed to have lost its ground what they might have earlier had. Furthermore, with the introduction of this Act all the arguments supporting economic integration of the country, removal of barriers to trade and commerce and such other factors completely lost their ground. What is now left as income tax is of purely local origin and forms a part of the local ‘core of income’. (Memorandum to the Third Finance Commission, GOWB, 1961, pp. 13-15)

It should be noted that Third Finance Commission also felt the justification of giving major weight to the contribution principle after passing this Finance Act, 1959. The Commission said, “ Since the Second Finance Commission made its recommendation taxes of incomes paid by the companies have been excluded from the divisible pool. The bulk of this tax paid by the companies would have accrued from income tax of all India origin. With the exclusion of these elements from the divisible pool a higher percentage than before of the total yield of incomes now represents the taxes derived from incomes of local origin.” But despite such realisation Third Finance Commission have also attached 20 per cent to the collection factor. (Memorandum to the Fourth Finance Commission, GOWB, 1965, p. 26) was also justified on the ground that the State with higher concentration of urban population and industries needs to bear additional liabilities for maintaining basic infrastructural facilities and other civic amenities.

We have mentioned before, according to the First and the Second Finance Commission's view 'need', but not contribution, should be the main criterion for the distribution of the proceeds from income tax and excise duties among the States. This basic principle was accepted by all the successive Finance Commissions. The criterion of "need", as was considered by the Finance Commissions, however, could be quantified by the respective population of the State as the assumption was that "needs" vary directly and proportionately with population.

Government of West Bengal strongly stood against the principle of attaching 'need' measured by population as an important criterion for resource distribution and said it is completely unconstitutional. Because need of a particular State is supposed to be taken care of by the Article 275 of the Constitution. Article of 275 clearly provides that Parliament has to determine which States are in need of assistance. Therefore, if resources of the States found to be insufficient to meet its requirements, it is for the Parliament or the President to assess the needs of the States and provide necessary grants-in-aid to the States under the Article 275. On the other hand Article 270 of the Constitution which provides for the distribution of the proceeds of the income tax among the States, makes no mention of the need factor nor does it imply that income tax should be distributed in a manner so as to put all the States in a position of equality. This argument is valid only for the purpose of Article 275. Therefore, the principle behind Article 275 can not be extended for the purpose of depriving one State of what is legitimately its due in order to give aid or assistance to another State.[67]

The State further felt that if at all population factor is to be considered for resource devolution then adequate attention should also be paid to the density of population along with the total volume of population of the State. High density of population in West Bengal became one of the major problems during the post-Partition period. And it should not be overlooked that the per capita needs of those States with heavy concentration of population in vast cities are much greater. The government explained that per capita cost of social overheads and services is much higher in

[67] It would be worthwhile to note that the Fourth Finance Commission (1965) seemed to be of the same opinion. As it said, "In regard to income tax the Constitution does not say that it should be distributed on the basis of budgetary needs. In fact, however, great the budgetary needs, a State will not get a share, if, for some reason or other the tax is not leviable in that State. And even when there is no budgetary need in a particular case, a State can not be denied some share in the income tax proceeds if the tax happens to be levied within that State. In the case of the Union excises also, the provisions are almost similar.....The only Article in the Constitution which refers to the need for financial assistance is Article 275. The grants-in-aid under this Article are to made only to 'such States as are in the opinion of Parliament 'in need of assistance' ". (Memorandum Submitted to Sixth Finance Commission, GOWB, 1973, p. 4)

concentrated centres of population than where the population is evenly distributed over a wide area and is pre-dominantly rural in character.

Against this backdrop the feeling of deprivation originates from the fact on account of receiving less share of the proceeds from income tax than its legitimate due which, as observed by the West Bengal government, was nothing but transference of resources from West Bengal to other States for their benefit. In it's view, even though all the States had suffered due to incorrect application of the Constitutional provisions of devolving funds, West Bengal's sufferings were more acute than others. The division of taxing power provided in the Constitution puts the State in a severe hardship. West Bengal was perhaps the only State where the agricultural sector was decadent[68] and not only failed to mobilise any revenue but also imposed liabilities on the Government's exchequer. With the abolition of *Zemindari,* land revenue was no longer a source of net revenue in West Bengal as costs of collection, payment of compensation to ex-intermediaries and settlement operations left a negative balance of 9.14 crores in the land revenue receipts over the five years between 1961 and 1966. (Memorandum to the Third Finance Commission, GOWB, 1961 p. 10)

Unfortunately, the Constitution had made the State government dependent on revenues from the agriculture sector in the form of land revenue, forest receipts, and irrigation rates which though yielded large revenues in other States i.e., in Uttar Pradesh but revenue collected from land, as mentioned before, was not only insignificant in West Bengal but also left a negative balance. (Memorandum to the Third Finance Commission, GOWB, 1961 p. 10) In contrast, West Bengal had a large prosperous industrial sector and the economic development of West Bengal largely have been dependent on this sector. Yet the State had no power to tax its industrial income. Thus government of West Bengal had power to tax the wealth which it did not posses but had no power to tax wealth which it had in plenty. Therefore, industrial development instead of being a source of wealth, became rather liability on the State. For the State alone had to bear the enormous cost of maintaining the basic infrastructure for industrial development and the allied essential social service. But economic prosperity of the State by virtue of industrial development was taken away by the government of India by means of corporation tax and customs duty in which the State has no share and income tax and excise duty which was distributed among the so called industrially less developed States in the name of the misconceived principle of regional equality. Thus other States with a growing agricultural sector had the best of both the worlds. On the one hand they had the benefit of the income generated from their buoyant agricultural sector of

[68]An estimation shows that the percentage increase of productivity in food grains over the period from 1952-53 to 1964-65 was only 0.90 per cent as against the all India average of 1.60 per cent. And percentage increase of productivity in non-food grains and all crops taken together were 0.09 per cent and 1.41 per cent as against 1.79 per cent and 1.91 per cent of all India average during the same period. Moreover only 17.40 per cent of the net sown area (62.9) was double cropped in the State due to insignificant irrigation facilities in 1966-67. Memorandum Submitted to Fifth Finance commission, GOWB, 1969, p. 7)

these States and on the other hand they received the income generated in the industrial States in the shape of shares of divisible taxes on the basis of the principle of per capita equality.

It was argued that if the transfer of Central resources i.e., income tax and other Centrally collected but divided taxes is utilised as an instrument to pump money out of one or two industrially developed States in pursuance of removing the inter-State disparities within a very short time span, then other States enjoying the advantage of natural resources and having potential for industrial development would not only be left with insufficient resources required to provide necessary infra-structural facilities for industrial development but also it could widen the gap between it's taxability and wealth. The State alleged before the Second Finance Commission that the great disparity between wealth and taxability was the biggest tragedy in the State. The State of West Bengal produced great wealth and was required to provide services and infrastructure so that wealth could be produced adequately. But unfortunately the State was not in a position to tax the wealth. "As a result West Bengal today enjoys the unenviable position of having great concentration of wealth but little power by which this wealth can be taxed for the benefit of the poor people living in the midst of that wealth. This great disparity between wealth and taxability is the biggest tragedy in the State and this is at the root of most of the malady from which the body politic of this State suffers. This is the problem peculiar to West Bengal and can not be solved without giving the State Government a commensurate share in the tax on industrial wealth and industrial income." (Memorandum Submitted to Second Finance Commission, GOWB, 1956, pp. 8-9)

Furthermore, balanced regional development, as argued by the State, can not be achieved if the growth of industrial States are stalled. Such practice, as the State felt, would also lead to the grave danger of retarding the economic growth of India as a whole. Therefore, the task of removing regional disparities should be undertaken in a gradual planned process and any step towards that direction must be preceded by proper identification of the backward areas of different States. Even though West Bengal appeared to be one of the most industrially advanced and prosperous States, the per capita income of most of the districts of West Bengal were miserably low. In fact all the districts of West Bengal except three had been declared backward by the Planning Commission. (Memorandum Submitted to the Fifth Finance Commission, GOWB, 1969, p. 22)

Excise duties consumption weightage

Appropriate selection of the criteria for distributing the proceeds from excise duties gave rise to major debates between the West Bengal government and the successive Finance Commissions during the Congress regime. Regarding the criterion for distribution of the proceeds from the excise duties, all Finance Commissions seemed to have reached to the consensus that it would be preferable to continue population as the sole basis for distribution. And the remaining amount was left for adjustments. However, First Finance Commission suggested that State-wise consumption of the shared commodities should be suitable basis for devolution of the proceeds from excise duties. But in the absence of any reliable State-wise consumption data[69] the Commission had to use population as the basis for distribution. The main principle set by the First Finance Commission was followed by the successive Commissions with few adjustments.

The State government, however, was of the opinion that consumption would be the only fair and correct principle for devolution. While substantial part of excise duties like sales tax are taxes on consumption. Moreover excise duties are passed on to the ultimate consumers who bear the ultimate burden. Thus, the distribution of proceeds from excise duty should be on the basis of origin and contribution and a State should get what could be levied if it had power to tax the commodities.

It is rather axiomatic that consumption of excisable commodities is quite high in densely populated, industrialised urban areas as in some parts of West Bengal. By far the largest amount of Union excise duties are collected from items like kerosene, matches, tobacco, tea, sugar, cotton fabrics, motor spirit, diesel oil, cement, paper and vegetable products. It can not be denied that consumption of such commodities are higher in densely populated urban areas. An estimation shows that in 1960 articles like kerosene (14.82 per cent) matches (19.88 per cent) tobacco (17.19 per cent) tea (21.59 per cent) sugar (11.71 per cent), cotton fabrics (8.17 per cent), motor spirit (8.38 per cent) and paper (30.69 percent) was fairly high in West Bengal where there are considerable large area of densely populated urban areas. (Memorandum Submitted to Fourth Finance Commission, GOWB, 1965, pp. 31-32) Therefore, the government observed that the State would be deprived of its due share if consumption criterion for devolving proceeds from excise duties is not attached.

The Third Finance Commission (1961) onwards, besides attaching major weightage to population factor, relative financial weakness/backwardness of the States (with minor variation from one Finance Commission to another) became another main criterion in devolution of the proceeds from excise duties. The Third Finance Commission which was instrumental in introducing the backwardness factor stated that in the matter of division of the States share of Union excise duties an attempt should be made to bring all the State's as far as possible to a comparable level of financial balance.

Attaching weightage to the principle like backwardness is not only unconstitutional, as the State criticised, but also unwelcome morally. While many of the commodities bearing excise duty as mentioned above are of

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[69] Second Finance Commission, however, accepted the principle of distribution of excisable duties on the basis of consumption was but both First and Second Finance Commission drew the attention to the lack of statistics regarding consumption which are reliable. Moreover Second Finance Commission didn't adopt it because they thought that the more urbanised would be benefited by the adoption of consumption criteria. However, West Bengal government argued that Second Finance Commission seemed to have overlooked the liabilities devolving upon the urbanised States.

basic necessities of life and consumed largely by the poorest classes. Therefore, the proceeds of excise duties are also partly derived from consumption of excisable articles by the poor and backward sections of the so called advanced States. Factors such as financial weakness or relative backwardness of the States, as the State felt, are not relevant to the question of where excisable articles are sold or where the excise duties accrue. Therefore, to take money from the poorest classes of the people of one so called advanced State in order to give it to other States on the ground of the latter's relative financial weakness or relative backwardness can not be justified. Likewise, the State argued, the provision for grants-in-aid as spelt out in the Constitution should deal with the problem of backwardness of a particular State. But shares of excise duties should not be utilised for such purposes.[70]

That apart, the backwardness criterion tended not to take into account the real measurement of backwardness of the State like West Bengal as we have mentioned earlier. There are backward areas and prosperous areas in all States and distribution of the divisible pool of Central excise duties assuming an entire State as backward or advanced is wrong in principle. Thus, it was argued that if backwardness is to be given priority then intra-State disparity in West Bengal should be taken into account. Needs of West Bengal would be much higher than other States due to her acute intra-regional disparity than other States. Of total income generated in the State about 58 per cent comes from Calcutta and some adjacent areas. Of the total number of persons employed in registered factories of the State in 1961, 83 per cent were employed in the four districts of Howrah, Hoogly, 24 Paraganas and Calcutta. Of the total industrial income about 78.7 per cent was derived from the region centred around Calcutta and Howrah. Therefore, other parts of West Bengal were as backward and underdeveloped as any other so called backward area of India. (Memorandum Submitted to the Fifth Finance Commission, GOWB, 1969, p. 22)

In sum the major contention of the State was that although West Bengal was relatively industrially developed than many other States, it is decadent in agriculture. Unfortunately, industrial development instead of being a source of wealth to the State government has become a liability under the present pattern of transferring the federal resources to the States. Under this pattern the wealth generated in West Bengal in the form of corporation tax, and customs duty are taken away by the Central government and income tax and excise duties are being largely transferred to other States due to the misconceived principle of per capita equity based on incorrect selection of weightages for devolving funds which are clearly unconstitutional.

[70] The same argument was also made by the State while discussing the futility of attaching the criteria of 'need' for the devolution of the proceeds from income tax. It was again argued that the criteria of relative backwardness for devolving funds from the proceeds from excise duties can not be used since such factors are normally dealt with by provision of grants-in-aid to States under the Article 275 of the Constitution.

Before Independence, Bengal suffered significantly due to the inelasticity of land revenue which was under the purview of the Provincial government and the Provinces at large denied any share of income tax and customs duty which Bengal produced in plenty. Thus, surplus generated in Bengal was allegedly being transferred to other States as well as appropriated by the Centre. After Independence the same trend seemed to have continued whereby West Bengal allegedly received much less share of income tax and excise duty due to meagre weightage being attached to contribution principle in case of income tax and consumption principle in case of excise duty. Which, however, said to have impaired its nation building services and hence the overall infrastructural development.

In respect of the per capita share of total Central taxes and statutory grants (Articles 273 and 275) the position of West Bengal was third among all the States in 1952-53. In 1957-58 too the position of West Bengal in this respect was the same but in 1962-63 it went down to the ninth place and in 1966-67 it further went down to eleventh place. (table 5 see Appendix) In per capita devolution of Central resources while every State had improved its position during the above mentioned period i.e., during the awards of the First to Sixth Finance Commissions, West Bengal suffered a deterioration. Even in terms of population, as the State demanded, West Bengal should have got much more than the present allocation of the Central tax transfers and grants-in aid. Thus it appears that in the eagerness to help the so called less developed States the basic needs of West Bengal were overlooked. (Memorandum Submitted to Fifth Finance Commission, GOWB, 1969, p. 15) The effect of the inadequate devolution of federal funds was reflected in inadequate allocation of resources in social services of the State. In 1952-53 West Bengal occupied the third position in India in respect of per capita expenditure on nation building activities. In 1957-58 it's position was fourth and in 1962-63 it's position slipped down to ninth. In 1963-64, 1964-65, 1966-67 it's position further drastically reduced to eleventh amongst the States in India. (table 6 see Appendix) (Memorandum Submitted to Fourth Finance Commission, GOWB,1965, pp. 18-19 & Memorandum Submitted to Fifth Finance Commission, 1969, p. 16)

In addition to that as complained by the West Bengal government, different Central policies pursued after Independence including the Partition brought tremendous suffering to West Bengal in many respects at the same time became source of profit to the other States. Income tax share was increased for other Sates while it decreased for West Bengal soon after Independence on account of the Partition. The proceeds form jute export duty though remained undiminished in fact the proceeds rose, but the government of India reduced the share of West Bengal and appropriated the savings. Thus, in the front of income tax, the Partition of Bengal became a source of profit to other States and in the case of jute export duty and jute goods the Partition became a source of profit to government of India. (Memorandum Submitted to Second Finance Commission, GOWB, 1956, pp. 8)

In this context it needs to be mentioned that West Bengal government during the Congress rule emphasised on the fact that Central policies pursued so far did not take adequate note of the needs of West Bengal and Constitutional verdicts and federal principles were not followed properly by the Centre and the Central institutions in many respects. The Constitution clearly spells that 'need' as measured by population of the State should not be the basis of devolution of resources among the States which is taken care of by Article 275 of the Constitution. Yet major weightage has been so far attached to the criterion of population which is supposedly represented the needs of a particular State in devolution of proceeds both from income tax and excise duties. This practice had left inadequate resources for West Bengal and consequently became the root cause of the major maladies of its economy.

The Constitution, however, clearly demarcates the responsibilities of the two levels of the governments i.e., State and the Centre. But, as expressed by the State, the Centre lately had made considerable encroachment upon the State subjects leading to unnecessary duplication and overlapping of functions between the two levels of governments. An estimation shows that expenditure by the government of India on subjects which were clearly assigned to the States increased during the last years by over 85 per cent while the expenditure on those functions which were assigned to the Centre increased to only 8 per cent. Therefore, such violation of federal principle made the State comment that "the federal principle requires that the Central Government and the State Governments should each be limited to their own spheres, and, within that sphere, should be independent of each other." (Memorandum Submitted to Third Finance Commission, GOWB ,1961, p. 5) In this context the State felt that the Finance Commission while assessing the need of the Centre at the time of resource devolution between the Centre and the State should take into account the trend of constant encroachment by the Centre on the State subjects and therefore should not provide the Centre anything more than was needed. "In our view one of the major tasks of the Finance Commission would be to assess the needs of the Centre according to the function it is required to discharge under the Constitution and to allow it to retain so much and *so much only,* of the funds that are actually required for the discharge of those specifically Central functions in an efficient manner. The surplus should be transferred to the States in the forms of share of divisible taxes rather than in the form of discretionary grants." (Memorandum Submitted to Third Finance Commission, GOWB ,1961, p. 6)

The State also expressed it's concern over the fact of the Planning Commission, a non-Constitutional body getting more powerful than the Constitutional body like the Finance Commission which does not go well with the federal aspirations and was bound to give rise to discretionary tendency in the Centre-State financial relations. Therefore, the State felt that the Finance Commission should act in their own right of exercising their Constitutional powers. The views of the Planning Commission are entitled to respect but it should be remembered that the Planing Commission is entirely an advisory body without any Constitutional power.

And the Planning Commission should not be encouraged to take upon themselves duties and functions which the Constitution has entrusted to the Finance Commission. (Memorandum Submitted to Third Finance Commission, GOWB, 1961, p. 53)

Evidently, during the pre-Left Front era though the accusation of being deprived as far Centre-State resource devolution was concerned, was made by the Congress government, any demand for a radical change in the federal system of India through amendment to the Constitution and the change in the structure and functions of the Centrally controlled financial institutions was not raised. Instead it was repeatedly said that fulfilment of the Constitutional provisions would minimise the suffering of West Bengal. The Congress government was very much critical about the Central policies taken so far, coupled with erroneous application of federal principles which went against the interest of the State. But these were not perceived as deliberate discrimination made against the particular State. Contrary to that during the Left Front era the demand for far reaching radical change of the Indian federation came to the fore along with the accusation of politically motivated, time specific and State specific discrimination against the State by the Centre.

West Bengal and the Centre during the Left Front era

During the last five decades Centre-State financial relations in India has undergone substantial change and it appears to indicate more centripetal bias than what was envisaged in the Constitution. Having voted to power in 1977, Communist Party of India (Marxist) (CPI (M)---major partner of the Left Front government, started addressing the lacunas of the federal structure of India and demanded fundamental change in this relation by amendment to the Constitution through submitting the Memorandum on Centre-State Relations on December 1, 1977. The document is said to have derived some inspiration and even ideas from the Rajamannar Committee Report. (Thimmaiah,1980, p. 19)

However, such demand of complete restructuring of the Indian federal set up was articulated by the CPI (M)-major partner of the United Front (1967-69) government and later on the Left Front government.[71] In 1971 the CPI(M) in its election manifesto expressed its view on the Centre-State relations in general and vehemently opposed the issue of existing framework of the federal structure of India. It was observed by the Party that the federal structure of India tended to become more unitary than federal. CPI(M)'s election manifesto said "the Congress Government denies real autonomy to the States and Union territories. By transferring more and more powers to the Centre, the Government is negating the

[71] "Until 1977, the impetus for changing the Constitution in the direction of greater devolution was confined almost solely to CPI(M),.... from 1977 onwards however, a chorus of different political voices rose throughout India which argued for different degrees and levels of autonomy for the States". (Sathyamurthy, T.V, Southern Chief Ministers' Meeting, July 10, EPW, 1982, p. 577)

autonomy of Constituent units and turning the federal structure of the Indian Union into a unitary state." (Maheshwari, 1971, p. 1192) Consequently the Party demanded abolition of the posts of governors, and Centre's right to impose President rule in the State. Concerning other areas of Centre-State relations, the Party demanded transfer of most subjects provided under the Concurrent list to the States and provision of greater financial resources to the Sates. (Maheshwari, 1971, p. 1194)

Over time the sharpness of the demand for complete restructuring of the Centre-State relations of India started getting worn down and with mere operational aspect coming to the fore. The whole course of the movement initiated by the Left Front government against the existing federal structure of India can be periodised under three categories. The first period covers from 1977 to approximately late 1980s. During this period the Left Front government laid more emphasis on demanding complete restructuring of the Centre-State relations through Constitutional amendment. Second period commenced from the late 1980s, during this time the government started concentrating more on operational aspect of the Centre-State financial relations and the demand for structural change of federal fiscal relations of India took a backseat. Thus, in a course of time the government confined itself to maximisation of the benefit of the State subject to the constraint provided by the Constitution i.e., the best use of existing provision of federal structure of India. Finally, since the inception of the economic liberalisation,1991, de-regulation and de-control of it's central theme, the State decided to exploit the opportunities of the abolition of industrial licensing policy and freight equalisation policy i.e., the limited autonomy provided to the States as part of the new economic policy to industrialise in their respective jurisdictions. However, both of these policies said to have adverse impact on the industrialisation of the State. The struggle against the Centre and Central policies during this period was perceived in terms of taking necessary initiatives to industrialise the State.

Autonomy of the States- Two debates Non-Congress Party Vs. CPI (M)

The Memorandum on Centre-State Relations, December 1, 1977 marked the beginning of demanding for significant fundamental change in the Indian federal structure. The Party also demanded radical redefinition of the character of the Indian state. The Memorandum said, the Constitution should be amended to include the word 'Federal' in the description of the Republic of India. Furthermore, the constitutional change should also be made to replace the word 'Union' by the expressions of 'Federation' so as to make the system truly federal.[72]

[72]In India first non-Congress coalition government headed by Janata Party came to power at the Centre in 1977. The then Prime Minister Morarji Desai emphasised that, 'stronger States means Stronger Centre'. But when Chief Minister of West Bengal submitted the Memorandum on Centre-State Relations on December 1, 1977, Mr. Morarji Desai turned down the demand for more State autonomy raised by the West Bengal government branding it an attempt to break up the country. He further said that more State autonomy at that juncture might encourage breaking away of certain States from the Indian Union. (Thimmaiah, G, 'The Issue of More State Autonomy', in Singh, S (ed.) Union-State Financial Relations in India, Sterling Publishers Pvt. Ltd. New Delhi, 1980, pp. 18) It is

Though the main thrust of the Memorandum was the demand for constitutional amendments for providing more autonomy to the States in the economic, fiscal and administrative areas it was clearly stressed in the Memorandum that the demand for strong States does not have any contradiction with the strong Centre. Instead the Party feels that when the power balance between the Centre and the States be distributed in such a way that "their respective spheres of authority are clearly marked out" that would automatically lead to true federation. However, as far as back in 1972-73, the CIP(M) also stood for strong Centre and equally strong autonomous States. It was perceived that the two being not contradictory to each other but complementary. The Centre can be further strengthened only by strengthening the States. (Anti-People Policy of the Indira Congress, West Bengal State Committee, CPIM, 1983)

In order to attain these two complementary objectives i.e., protecting the State's autonomy and preserving and strengthening the Union authority, the Party feels that a strong Centre in a truly federal structure should be capable of discharging it's elementary duty of defending the independence, sovereignty and unity of India. While the States should be vested with powers in relation to all social and developmental areas. (Peoples Democracy, September 30, 1984) However, the States are required to act in such a way while exercising their full rights in their own spheres that 'they do not transgress the spheres allotted to the Central Government, the latter too, on its part, should not interfere in the sphere of the States... " (A Memorandum on Centre-State Relations, December 1, 1977) Thus no party would get strengthened at the cost of another.

There have been two pre-existing rationales for maintaining such national unity i.e., two versions of the bourgeois approach to Centre-State relations as described by the Party. One group concerns with centralisation at the expense of the State autonomy and the other concerns with weakening national unity in the name of the State autonomy. From time to time India has been witnessing separatist movements which tend to threaten national unity. As the Party feels that Centre-State question is being distorted by these elements while one of the major objectives of these movements is to attain State autonomy at the cost of weakening national unity. But the autonomy of the States by no means, as the party demands, should be achieved by disrupting the unity and integrity of the Indian federation. Hand in hand with this separatist movements another trend is also present in the Indian federation. Thus where secessionist overtones are absent, the question of Centre-State relations is exploited by reactionary local vested interests that eventually leads to the feelings of regionalism and local chauvinism. Quite evidently, as the Party observes, all of these trends tend to erode the common feeling of national unity. (Ranadive, B.T, The Sarkaria Commission Report: Empty Rhetoric, The Marxist,

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worthwhile to note that the very same argument was used during the construction of the Constitution while incorporating some unitary trends into Indian federation.

Theoretical Quarterly of the CPI (M), Vol. 6, January-March, 1988, pp. 34-35) Nevertheless, it should be stressed that while the Party is opposed to all disruptionist movements as also opposed to the increasing centralisation as a weapon to defend national unity against forces of disintegration. Thus the CPI (M)'s understanding is totally different from the Centre and also from the Sarkaria Commission (1984). Both in the name of maintaining national unity justify concentration of legislative, administrative and financial power in the hands of the Centre. (Ranadive, B.T, The Sarkaria Commission Report: Empty Rhetoric, The Marxist, Theoretical Quarterly of the CPI (M), Vol. 6, January-March, 1988, pp. 36-37)

Needless to say, strengthening the Centre, as the Party feels, does not rule out the demand for restructuring the Constitution for ensuring greater autonomy to the States. Because without relevant amendments to the Constitution it will never be possible to transfer the necessary power and resources to the States. Moreover, the Party observed that non-Congress governments and also some Congress governments broadly feel there is nothing wrong with the Constitution as it was framed, that what is wrong is only in it's working. Therefore, they hardly demand for radical restructuring of the Constitution of India. But the Party is of the opinion that both the basic structure of the Constitution and the manner in which the provisions of the Constitution was distorted in an attempt to strengthen the Centre while undermining the State's autonomy needs to be addressed. (Peoples Democracy, CPI (M) Party organ, March 23, 1969 and also see Peoples Democracy, April 23, 1978)

In relation to this, the Party also notices that the difference between the other non-Congress parties as well as a particular section of Congress party and CPI (M) lies not only in their perception of existing framework and functioning of the Constitution and to what extent it needs to be amended. But it deals more with the question of basic conflict of the Indian polity and class structure which gets manifested in the arena of Centre-State relations. Thus "it is not just a question of getting a few Constitutional amendments......It is a intense battle against the growing authoritarian attacks of the ruling party on Indian democracy....Congress leaders like Sri Kamaraj even certain non-Congress governments raise the problem as if it is a pure and simple constitutional problem which can be amicably settled by tinkering with this or that provision of the Constitution. ...The CPI (M) has all along held that the question of Centre-State relation is not a question of just some provisions in the country's Constitution but, inherent in this problem are the some of the serious contradictions which are coming to the surface as class contradictions in the Indian society...." (Peoples Democracy, March 23, 1969) Thus the Party argued, the question of Centre-State relations is not merely a problem confined to the framework of the Indian Constitution rather "it is a problem which reflects the struggle of two contending class policies–the policies of big bourgeois-led state and the policies which the democratic movement stands for." (Peoples Democracy, March 23, 1969) "The former attempted to develop the Indian Union as a highly centralised state through which alone the bourgeois can get control of the extensive home market and enter into collaboration with foreign capital. The later relies on real democracy for the popular masses, state autonomy being an essential element in real and full democracy." (Namboodiripad, 1987, p. 46) Therefore "the party's understanding of and proposals related to centre-state relations is a part of it's approach to the whole question of democracy. As opposed to bourgeois democracy, the basis on which the Congress rulers framed the Constitution, our programme based itself on people's democracy." (Namboodiripad, 1987, p. 46)

The Party goes on to say that, "Hand in hand with this conflict on the question of centralisation and state autonomy between the bourgeoisie and proletariat, there is also a conflict between the two sections of the bourgeoisie-those ruling the centre and the states respectively. The former talks of a "strong centre" which rules out state autonomy, while the latter tries to reduce the functions of the centre to the minimum." (Namboodiripad, 1987, p. 46) Moreover, the Party feels that, other non-Congress political parties like DMK represents a faction of ruling class as the central ruling party and therefore wants a restructuring of Centre-State relations within the same socio-class set up. Instead the political party like CPI (M) which represents the working class sets the question of the Centre-State relations in the framework of a different co-relation of class force. (Namboodiripad, 1987, p. 44)

Thus the CPI(M) in one occasion places greater emphasis on fundamental restructuring of the Indian federation through basic amendment to the Constitution with a view to ensure autonomy of the States while strengthening the Centre and upholding the national unity. But in other occasion, the Party perceives the whole conflict as regards Centre-State relations in the light of basic class conflict of the Indian polity. Therefore, as the Party feels, unless such class conflict is addressed or mitigated the real autonomy of the States could not be attained. Which, however, marks the difference from the other political parties including both Congress and non-Congress parties. Because on the one hand the latter want to perceive the problem of Centre-State relations in terms of minimising the ill-functioning of the Constitution and/or bringing some cosmetic change in it but hardly demand any radical restructuring of the Constitution with a view to ensure greater autonomy of the States. In both occasions political parties other than left democratic parties like CPI (M) want to restructure the Centre-State relations within the same socio-economic and class structure. That apart, the difference between the CPI (M) and other Congress and Non-Congress parties lies also in the fact that either the latter legitimise centralisation in the name of upholding national unity or tend to weaken nation unity in the name of strengthening the States autonomy while the CPI (M) stands for striking the balance between the State autonomy and the strong Centre.

Therefore, the crux of the demand formulated by the Party is to attain the balance between these two countervailing forces. But one fails to understand how such desired balance of ensuring State autonomy and strengthening the Centre will come into force. If such balance is attained through radical restructuring of the Constitution then the question is will it be attained on the basis of same socio-economic and class structure or total restructuring of the Indian polity and economy. The Party seems to be suffering from lack of understanding as regards this question. While in one occasion, the Party describes that the desired balance of ensuring State autonomy and strengthening the Centre should be set on radical restructuring of the existing class relations and in other occasion, the Party seems to accept the existing class relations while stressing the need for upholding and protecting national unity in order to combat ongoing secessionist movements in the Indian territory. Therefore, it appears to us that the Party legitimises centralisation for the sake of upholding existing frame of national unity which is, quite evidently, based on the same class structure.

Therefore, in course of time the difference between what the Party tried to maintain from the other political parties in terms of restructuring the Indian federation with a view to attain State autonomy by radically changing the existing class force as against the view of congress and non-Congress political parties which stand for attaining the State autonomy within the existing class structure of the Indian federation got increasingly blurred. That eventually leads the Party to only get confined to a more accommodating position. Thus since the late 1980s the Party mainly focused on the more operational area of the Centre-State relations leaving aside the demand for radical restructuring of the Indian federal set up. However, this trend became more apparent with the inception of economic liberalisation, 1991. The focal point of the struggle against the Centre and central policies was to exploit limited autonomy provided to the State in the sphere of industrialisation. Set aside the demand of radical structuring of Centre-State relations on which the Party focused until the early 1980s, even the recent threat constituted on the State's autonomy since economic liberalisation did not get adequate attention it deserved . Subsequent part of our study will deal with this area.

Furthermore, the difference between the democratic centralisation what the Party stands for as against authoritarian centralism which denies autonomy to the subordinate governments does not seem to be clearly exercised in the State-local government relations in West Bengal. Though several studies on Panchayat in West Bengal admit that decentralisation of power was successfully exercised but to what extent three different forms of decentralisation i.e., political, administrative and financial decentralisation took place in West Bengal leaves adequate room for controversy. It is disheartening to note that although the Party upholds democratic centralisation the study pursued by Bhattacharya (1998) observes that in State-local relations the Party hardly wants to lose its grip and almost all major decisions are taken by the Party hierarchy. Evidently centralising operational mechanism of the CPI (M) for running Panchayat is evident. At each level of the Panchayat the Party forms Panchaytat Sub Committee (PSC) which is the Party's *Parichalana* (organisational) Committee (PC) All elected Party members of Panchayat Samiti and Zila Parishad will act under the respective committees. The final decision at each level will be taken by the PSC although the elected members can make recommendations. Thus the Party sources clearly establishes that

that Panchayat are emptied of all real content as the important decision are taken at the level of Panchayat Sub Committee (PSC) violating the rule of democratic decentralisation principle where people's participation is sought to be ensured. (Bhattacharya, H, Micro Foundations of Bengal Communism, Ajanta, Books International, New Delhi, 1998, pp. 108-114). Moreover the Party not only is reluctant to provide complete autonomy of the local governments but also legitimises such denial through articulating it in the following manner. The Party feels, needless to say that there is a strong centripetal bias in the Indian federation and such centralisation puts constraints on them to empower local governments with a view to make them function as self government.[73]

Demand for limited restructuring of Centre-State relations

As mentioned above the Party holds the view that in its actual working the Constitution came to be distorted and even the limited extent of autonomy that found a place in the Constitution has been eroded. Although the Constitution was meant to be a federal one its unitary features have increasingly come to overshadow it's federal features. Thus the Constitution which was adopted after Independence and came into force is federal in form but "Unitary" in content which necessitated radical restructuring of the Constitution. That as proposed by the Party will be described in the subsequent part.

The demand for providing more autonomy to the States includes the following aspects. Emergency provision enabling the Centre to interfere in the affairs of the States under Article 249 of the Constitution should be removed. And residuary powers which are not included either under the Centre, State and Concurrent list be transferred to the States. However, Concurrent list is one of the most contentious issues of the Centre-State relations. It was demanded by the West Bengal government that Concurrent list should be abolished and the items covered by the lists be included under the State list.[74] But the industrial and power or irrigation

[73] In August 1992, the Minister of Panchayats of West Bengal, Dr. Surya Kanto Mishra articulated this view in the concluding speech to a Panchayat workshop, Calcutta in the following manner, "I want to make it clear that devolution of power can be done to the extent that the State Government possesses it. In India there is only one government. The rest are local administrative bodies. The State Government does not possess any state power, and therefore cant not decentralise state power and is circumscribed in the devolution of finances to the lower level." Quoted in Lieten, G.K, " For a New Debate on West Bengal", Mainstream, February 12, 1994, pp. 22 and also see Lieten, G.K, Development, Devolution and Democracy village discourse in West Bengal, Sage Publication, 1996, p.232)

[74] While expressing her view to the Commission on Centre-State Relations, 1984, the Government said "To begin with, the Concurrent List should be abolished. Article 254 implies that the Concurrent list is in effect the second Union list, since in case of a conflict between a Central piece of legislation and State law, the Central law will prevail; items covered by the Concurrent list are thus subject to the ultimate jurisdiction of the Union Government. It is our point of view that this list must be eliminated in entirely and all items covered by it be transferred to the State List." (Reply to questionnaire, Commission on Centre-State Relations, Government of West Bengal, July, 1984, p. 4)

schemes which concern more than one State have to be kept in the Union list so that there can be a common policy and final decision in regard to these multi-State projects that will be taken by the Union government, while the execution and implementation should be channelled through the State governments. Industrial licensing policy apparently generated a lot of debate before its abolition. The State alleged that political influence played greater role in distribution of such industrial licences among the States and claimed that major modification in the industrial licensing system was called for. Besides the lists in the Seventh Schedule should be reformulated so that States may be given exclusive power in case of the certain categories of industries.

In order to preserve State autonomy it was claimed that the State Legislature must be the supreme authority in the State sphere and no interference by the Centre in this sphere should be allowed on any ground. West Bengal government demanded abolition of Article 200 and 201 of the Constitution which empowers the Governor of the State to reserve Bills passed by the Legislative Assembly of the State for President's assent. And bills passed by the State Legislature should not be left in pendency for the assent of the Parliament and the Parliament should not pass laws on subjects included in the State list.

On the structure and function of two multiple resource transfer agencies, the Finance Commission and the Planning Commission, West Bengal government took quite a radical position and not only criticised the operational limitation of these two bodies but also demanded thorough restructuring of these agencies. However, the Finance Commission is a statutory body appointed after every five years under the provision of the Article 280 of the Constitution. It's chief function is to make recommendations on the distribution of the net proceeds of sharable taxes between the Centre and the States. The State demanded that Article 280 clause 3, sub-clause (a) which provides "the distribution between the Union and the States of the net proceeds of the taxes which are to be or may be divided between the Union and the States" should be deleted and redrafted in such a way so as to make it clear that the duty of the Finance Commission is only to make recommendations to the President on issues related to the allocation among the States of their respective shares of the proceeds. (Memorandum on Centre-State Relations, GOWB, December 1,1977)

The government of West Bengal laid great emphasis on the concept of 'totality of resources'. The total resources raised by the Centre, they claim should go to the divisible pool instead of the Centre sharing selective taxes and duties with the States. It was demanded by the government of West Bengal that 75 per cent of such total resources of the Centre should be shared with the States following the Finance Commission's recommendations instead of sharing the proceeds from selective taxes and duties as spelt in the Constitution. West Bengal government went on to say that it should not be the job of the Finance Commission to decide on the proportion of revenues to be distributed between the Centre and the States. Its task should be only to fix the proportion that each State should get from the 75 per cent of the total financial realisation of the Centre. (Memorandum on Centre-State Relations, GOWB, December 1,1977)

In this connection it should be mentioned that even though Tenth Finance Commission (1992) recommended that 29 percent of the proceeds from all taxes and duties imposed by the Centre should be brought under the divisible pool with a view to enabling the States to enjoy the buoyancy of Central taxes but the concept of 'totality of resources' seemed to encompass a much larger domain of Centre's resources which is to be shared with the States. Therefore, the main thrust of the West Bengal government during 1980s was to reorder Union-States financial relations in such a manner that the devolution of resources from the Centre to the States should cover the totality of resources which includes the total amount of resources the Centre generates from all conceivable sources of revenue including those of capital receipts namely receipts from bonds and others revenue sources. The case for including receipts obtained through periodic increases in administrative prices in the divisible pool derives from the consideration that such increase has been intended largely to avoid the Constitutional obligation to share the proceeds of excise duties with the States. The inclusion of the capital receipts such as those from special bearer bonds in the divisible pool was also legitimised on the ground that contributions to these bonds directly affect receipts under income tax and hence the sharable portion of the States. Since the States were under the purview of the existing recommendation of the Finance Commission, entitled to receive a fixed percentage (which varied from one Commission to another) of the proceeds from income tax. Therefore it is also legitimate that contribution to the bonds too is included in the pool. Similarly, proceeds from various borrowing programmes launched by the Centre, proceeds from all schemes for revenue-raising, contingent upon major concessions being accorded under the income tax and also all probable sources from which the Centre normally raised revenue should be shared with the States. (Reply to Questionnaire, Commission on Centre-State Financial Relation, GOWB, July 1984, p. 20 & 28)

Evidently, West Bengal government demanded greater role to be played by the Finance Commission. Finance Commissions are not only expected to be confined to their narrow legalistic position i.e., they should not only concerned with vertical (Centre to the States) as well as horizontal (States per se) distribution of resources. They should also concern "with the question whether the existing Constitutional provisions are adequate for dealing with the imbalance in the State's revenue account and whether Central laws are *ultra vires* the Constitution or ethically wrong." Thus the State felt that it is the duty of the Finance Commission to point out the inadequacies of the existing order of fiscal federal relations which seriously constrains the financial relations between the Centre and the States. (Memorandum to the Eighth Finance Commission, GOWB, 1983, p. 2)

Grants-in-aid provided by the Finance Commission seemed to have also become major point of contention since such grants, as alleged by the State, tend to widen the regional disparity further by discriminating against the low income States. The State demanded complete abolition of the usual provision of grants-in-aid by the Finance commission. The grants-in-aid element should be treated as a residuary support to fill the gap left uncovered after the distribution of shares of the Central taxes and duties. Moreover, in the State's view, grants under Article 275 of the Constitution are to be used only for meeting specific resource problems of a significant nature faced by the States. The gap between the normal revenue of the State and its non-Plan expenditure, including committed liabilities in respect of Plan schemes, Central sector schemes, Centrally-sponsored schemes etc., should be filled by shares of Central taxes and duties as far as possible.[75] (Memorandum to the Seventh Finance Commission, GOWB, 1978, p. 5)

There is a longstanding debate on whether it is rational to make an artificial distinction between Plan and Non-Plan expenditures on the ground that Plan transfers are made by Planning Commission and Non-Plan transfers by the Finance Commission. The obvious result of such a division is that the States tend to underestimate the necessity of allocating adequate funds for the maintenance of the existing units in an attempt to receive more funds from the Planning Commission by creating more and more new Plan schemes. This Plan and non-Plan distinction is rather arbitrary as observed by the West Bengal government and therefore the State strongly recommended that financial transfer of all categories be decided upon and reviewed periodically by one and the same body preferably set up under the auspices of Inter-State Council in order to avoid such complications and wastage of funds. (Reply to Questionnaire, Commission on Centre-State Relations, GOWB, 1984, pp. 25-26)

Regarding the structure and function of the Planning Commission the State expressed it's dissatisfaction and demanded that the structure of the Planning Commission be changed so that it may perform efficiently in the spirit of true federation. The Planning Commission, as the State's opinion, is currently a relatively ineffective institution acting as an appendage of the

[75] The government felt that the principle of grants-in aid should be abolished altogether once the process of resource-sharing takes into fullest account the different aspects of economic and social disparities. Once this is done efficiently there should be no occasion for considering separately the issue of grants for narrowing down the disparities at the level of administrative and social services. Under any circumstances the mechanism of grants must not be used to discriminate further in favour of the relatively better-off States, as it was done in the past. There may be some provision for offering grants-in-aid to cover situations of emergency, but the allocations must be made exclusively by the body set up by the Inter-State Council and not at the discretion of the Union Government. (Reply to the Questionnaire Commission on Centre-State Financial Relation, Government of West Bengal, 1984, p. 27) It is worthwhile to note in this connection that the view of West Bengal in the pre-Left Front era i.e., during the Congress regime on the question of grants-in-aid was broadly similar to that of the Left Front government. It was felt that grants-in-aid should largely be a residuary form of assistance. The need of the State should be met as far as possible by devolution of taxes and the States should not be made dependent on grant assistance while tax sharing being statutory right of the State is much buoyant a source of revenue than the grants which is fixed and has some discretionary elements. (Memorandum Submitted to Third Finance Commission, GOWB, 1965, p. 41)

Centre. It is not a Constitutional body, but was set up by a resolution of the Union government, which appoints and dismisses its members. The Union government takes decision on crucial economic issues without apparently to caring to consult with the Commission and the later does not dare to protest. (Views of the Government Of West Bengal on the Sarkaria Commission Report on Centre-State Relations, GOWB, p. 8)

With a view of giving appropriate importance to the views of the States in the Planning process, West Bengal government demanded radical reconstitution of the Planning Commission too. The Planning Commission, according to them, should be converted into a secretariat of the Inter-State Council which has the potential of representing the aspirations of the States much better than existing body called National Development Council.[76]And the selection of the personnel of the Planning Commission must be decided upon by the Inter-State Council instead of the Centre alone.

In this context it is necessary to mention that the Central government resisted the implementation of the constitutional provision enjoining the formation of Inter-State council. The Inter-State Council, however, is provided for in the Constitution as a forum for the Centre and the States to discuss common issues concerning Centre-State relations. Till 1989 the Congress government had never bothered to convene the council. It was the V.P. Singh government which first constituted the Council. Since then the council has been meeting periodically. This in itself is a result of the prolonged struggle pursued by the States.

Further, the State felt that due emphasis should be placed on the opinion of the State in the Planning Process which has been conspicuously absent. The State, however, feels that since economic and social planning does not merely depend on the professional advice of experts but is a matter of political consideration and decision, equal weight should also be

[76] It is therefore, important that the National Development Council (NDC) be supplanted by a properly constituted Inter-State Council (ISC) in line with Article 263, as amended, with due weightage given to representation of the State governments. The National Development Council, as is well known, hardly functions. It meets depending on the wish of the Prime Minister, its deliberations are monopolised by the Union government and its impact on the national Planning process is negligible. Therefore, the Inter-State Council should be reactivated. A Constitutional body like ISC is different in many ways from the National Development Council. It was also stressed that a meeting of the NDC can be called only by the Centre and used to be held quite infrequently and in a manner dependent upon the discretion of the Centre. But an ISC meeting can be requisitioned by any of the Chief Minister and besides , Chief Ministers have the power of veto on the proposals before the ISC. (Reply to Questionnaire, Commission on Centre-State Relations, West Bengal Government, 1984, pp. 43-45 & Views of the Government Of West Bengal on the Sarkaria Commission Report on Centre-State Relations, GOWB, pp. 8-9)

given to the political consideration and decision taken at the State level. The Union Ministers must not be allowed to impose their ideas on the Planning Commission. At least the Constitution itself should lay down procedural details for the Planning Commission's functioning. Except for a number of industries crucial for defence or where massive investments are called for which are beyond the ability of the State government, the whole responsibility for overall planning and licensing for industries should be transferred to the States. (Reply to Questionnaire, Commission on Centre-State Relations, GOWB, 1984, pp. 43-45)

The period of emphasis on functional aspect of federal structure of India

The government of West Bengal seems to have started accommodating itself with the existing system of the federal fiscal relations from the second phase i.e., from the late 1980s. The State remained mainly confined to the functional/operational aspect of the Centre-State financial relations without stressing on the demand for restructuring the entire framework of the federal system of India. However, the State had sought to maximise it's bounty subject to the constraint posed by the Indian federal system. Subsequently, government of West Bengal made some suggestions before the Finance Commission i.e., Centre regarding different issues which were likely to benefit both the Centre and the State.

One of them related to arranging joint effort of resource mobilisation aimed at augmentation of resources of both the Centre and the States may be taken up for the examination in some detail. At present some taxes are levied and collected by the Centre and then shared with the States. Instead of this existing system, the State suggested that the taxes be levied by the Centre for reasons of uniformity in tax rate etc., but collected by the State which will thus augment the resources of both the Centre and the States. This is highly possible if this joint effort of resource mobilisation is exercised under proper built-in-incentive. For example, the power of levying excise duties is at present retained in the hands of the Centre. But if the power of collection, with appropriate Constitutional amendment and legal provisioning, is decentralised to the States the proceeds from excise duties would be augmented. Since the States already have comparable experience, information and administrative machinery for collection of sales tax and have often achieved higher rate of collection than the corresponding centralised excise duty collection. Moreover, with the built-in incentive where 50 per cent of additional collection by the concerned State over and above the previously fixed target will be given back to the State along with its usual share would encourage the State to utilise their full potential in collecting resources. As a punitive measure it was also suggested that if there is any short fall in collection from the State's target the State must be prepared to allow suitable deduction from its own share of excise duty for that corresponding item so the Centre does not have to lose in any case. (Memorandum Submitted to the Tenth Finance Commission, GOWB,1992, pp.24-25) However, it could be noted that the success of decentralisation in resource mobilisation being practised in the State since November 1, 1992 in the sphere of State and local government and encouraged West Bengal government to extend it to the domain of the Centre and the State.

In 1981 the Government of India issued bearer bonds which could be freely purchased and transferred and their holders were not expected to be called upon to explain the source from which they obtained the money invested in them. This scheme, however, was aimed at tapping 'black money' which was accumulated by evading income tax. The obvious outcome of this scheme was that those possessing such money were spared the responsibility of paying any income tax on it. Evidently the loss on this account was entirely that of the States. While they were denied the share of the income tax[77] which could have accorded to them if the total 'black money' absorbed in the bonds, had been subjected to tax. It was estimated by the government of West Bengal that from the sum of Rs. 1, 000 crores which the government of India intended to collect through the bonds, the share of West Bengal would have been at least Rs. 67 crore and the State should have been entitled to receive the amount. (Memorandum Submitted to the Eighth Finance Commission, GOWB, 1983, p. 7)

The State government also made the suggestions before the Tenth Finance Commission of unearthing 'black money' through the Centre-State co-operative efforts. It was expected that with a built-in-incentive for the States in the form of sharing a part of the additional resources thus mobilised would benefit both the Centre and the State government. In this effort West Bengal government intended to help the Centre with relevant information to the extent possible within the limited ambit of the State's power. Thus if the collection of the 'black money' of the States exceeds the stipulated target particularly through such co-operative effort, a certain percentage of the additional collection over and above the usual percentage of devolution may be given back to the concerned State. In this manner, both the Centre and the State would be benefited. (Memorandum Submitted to the Tenth Finance Commission, GOWB, 1992, p.12) Afterwards Voluntary Disclosure of Income Scheme (VDIS) was adopted in the 1996-97 Union budget in an attempt to unearth 'black money'. In line with the previous suggestion the State suggested that there should be regular monitoring of a comprehensive information base on the basis of the co-operative effort of the Centre and the States with a built-in-incentive for the states share a part of the additional collection. (Memorandum Submitted to Eleventh Finance Commission, GOWB, 1998, pp. 4-5)

Accepting the federal structure of India since 1990s

[77] Share of income tax proceeds of the States was also affected by the fact, as West Bengal Government observed, that the Central Government often made adjustment in the income taxation through exemption, concessions etc., without consultation with the States who affected the worst. The State demanded in this respect that the Finance Commission should recommend specifically that the Central government must consult the States before announcing such adjustments, exemptions, and allowances. (Memorandum submitted to the different Finance Commissions during the Left Front Government of West Bengal)

The struggle against Centralisation of the Indian federation experienced dramatic turn in the State since the inception of economic liberalisation of 1990s. With the abolition of freight equalisation policy and industrial licensing policy as a part of economic liberalisation, it was felt by the Party that the course of struggle pursued since the late 1970s against the Centre and regressive nature of the Indian federation must be changed in the changed milieu of 1990s. The State should actively pursue industrialisation with a view to exploiting the limited autonomy provided to the State in the sphere of industrialisation in it's jurisdiction. Eventually new economic policy was designed by the CPI (M)-led Left Front government in 1994 in order to accelerate and facilitate the process of industrialisation in the State.

The Party feels that West Bengal is not an independent and sovereign country and the State has to function within the framework of the Constitution of India. Jurisdiction of a State government has been categorically defined in the Constitution. The State governments at large have no role in formulating economic policy. Because economic power such as policies of export-import, foreign investment, monetary policy, financial institutions, major resource mobilisation, taxation and duties are all concentrated in the hand of the Centre and are also determined by the Centre. Thus the States at large are neither able to implement alternative industrial policies set by them nor the Central government's policy can be altered or transcended in a particular State i.e., West Bengal alone. (Peoples Democracy, November 12, 1995) Furthermore, "within the existing capitalist system and parameters set out by the big bourgeois led government it is not possible to develop industries autonomously in West Bengal with the limited resources of the state government. Nor it is possible to change the nature of the capitalist path of development in one state alone when all the powers vest with the Centre". (Peoples Democracy, Jan 8, 1995)

That apart, the Party observes that Congress policies so far was directed towards discriminating against eastern zone in general and West Bengal in particular. Discriminatory attitude was geared in the areas of providing industrial license, allocating financial assistance and credit by the centrally controlled financial institutions and commercial banks. These factors coupled with implementation of freight equalisation policy (1956) made the State into industrially desert. Such pro-longed discrimination must be countered. Thus in order to counter the blockade and discrimination made by the Centre, it is of urgent necessity to develop industries in the State. (Peoples Democracy, January 8, 1995)

Further, with the abolition of freight equalisation policy and industrial licensing policy it became meaningless to complain against Centre's discrimination in regards these areas. In the changed milieu the tactics should be different. "Unlike in 1985, when the struggle was against the discrimination of the centre, with it's power of licensing and regulation of industry against West Bengal today with deregulation and de-licensing it is up to the Left Front government to initiate steps to attract capital investment in West Bengal." (Peoples Democracy, January 8, 1995) Thus the changed context of 1990s brought basic question before the States i.e., industrialisation or de-industrialisation. The Party's understanding was that the Left should always stand for industrialisation in order to give relief to the people by taking an initiative to industrialise the State while functioning within the parameters of the Central Government's policy. (Peoples Democracy February 26, 1995) Moreover, as mentioned above, industrialisation of the State was also perceived as a battle against the Centre's discriminatory policies pursued so far in an attempt to de-industrialise the State.

Initially the focal point of the struggle against the centripetal bias of the Indian federation by the Party started with complete restructuring of the Indian federal set up by radically amending the Indian Constitution and also by altering the pre-existing class relations with a view to ensure greater autonomy of the States. By the late 1980s the focal point of the struggle shifted more towards addressing mere operational area of the federal fiscal relations. With the inception of New Economic Policy, 1991 this trend was further strengthened. It was ultimately confined into the rationale that the States in general and West Bengal in particular has to operate under this very structure of the Indian federation and the States at large are unable to pursue alternative course of development in the face of this all India liberalisation and privatisation. Therefore, though the Party started it's struggle with radically restructuring the Indian federal system the Party ultimately ended up with accepting the structure itself and seeking for the opportunities to make best use of the existing structure.

The type of struggle against the Centre pursued by the Party during 1990s have two ramifications. On the one hand such struggle seems to have given rise to the feeling of new form of regionalism because it is meant to address the spheres where the State in particular was subject to get discriminated against. Thus the struggle against the Centre remain confined into taking necessary initiatives to industrialise the State in an attempt to make counter attack against the perceived discrimination. On the other hand the State does not seem to bother much about broader demand of restructuring the Centre-State relations. Set aside the demand for radical restructuring of the Indian federation with a view to provide more autonomy to the States, even the assault made on the federal structure of India during the late 1990s , which considerably eroded States autonomy did not seem to get adequate attention it deserved.

During 1990s the budgetary crisis of both the Central and the States got intensified. The Central government while making no serious attempt at reducing it's budgetary deficit by exercising fiscal discipline took the easier option to linking Central grants, a statutory rights of the States, to revenue deficits reduction by the States violating the aspiration of true federation. Though Fiscal Responsibility and Budget Management Bill, 2000 was introduced aiming at introducing greater fiscal discipline of the Centre. But it seems to have little impact on the Central finance. Because revenue deficit as well as fiscal deficit of the Central government continued to rise during the recent years. Revenue deficit of the Centre as per cent of GDP increased from 2.5 per cent in 1991-92 to 3.9 per cent in 2002-03 (BE). While fiscal deficit as per cent of GDP increased from 4.7 per cent in 1991-92 to 5.5 per cent in 2002-03. (BE) (Economic Survey, 2002-03)

There has been a common consensus among the scholars of public finance that over time Centre-State relations has deteriorated and the fiscal power of the States became worsened much more than what was envisaged in the Constitution. Despite this pre-existing trend, the decade of 1990s seems to have witnessed unprecedented attack on State's autonomy. The release of normal Central Plan assistance was made conditional to fulfilment of certain criteria. The Planning Commission, however, made a declaration on July 1, 1999, that "Central Plan assistance to States- already agreed to and approved- would be released on a monthly basis strictly on the recommendations of the State Plan Adviser concerned (in the Planning Commission), on the basis of the certain new criteria now laid down". (Ghosh, 1999, p. 113). Evidently, Central Plan assistance to the States would be eventually controlled by few chosen bureaucrats of the Centre. Because the Ministry of Finance, government of India supposed to release Plan funds to the States only on hearing from the concerned State Plan Adviser of the Planning Commission which basically consists of Indian Administrative Service thus facilitating the process of renewed bureaucratisation and discretion to be exercised by the bureaucrats and the Centre in the matter of Central Plan transfer. Further, the Commission also stressed that the release of the Central Plan assistance could be withheld if the concerned State fails to meet certain criteria of fiscal discipline[78] laid down by the Planning Commission.

That apart, a fund with effect from April 2000 was also proposed to be set up by the Planning Commission. The assistance from which was said to be linked to specific projects and would be allocated to the States on the basis of the certain laid down criteria and performance parameters. With this objective in view detailed Memorandum of Understanding (MoU) was intended to draw up with the State governments. And the release of funds would be available to the States subject to the fulfilment of the conditionalities under the MoU. (Ghosh,1999, pp. 114) The Planning Commission felt that an arrangement should be made under which the Commission can monitor the performance of the States in specific projects and encourage greater fiscal discipline of the States in order to derive optimum output of various Plan schemes. But whatever may be the intention the proposed arrangement would seem to encourage discretionary element in the statutory transfers from the Centre to the States. (Centre-State Relations, Unsavoury Changes, EPW, June 19, 1999)

[78]Some of the conditions for withholding the release could be as follows: inadequate expenditure in the previous months; serious financial irregularities and non-achievement of outlays under earmarked sectors/schemes; inadequate performance in importance sectors/core plan; non-receipt of crucial information like Plan documents, sectoral allocations, expenditure statement, etc. and non-implementation of guidelines issued by the Planning Commission from time to time. (Ghosh, A, 'Financial Designs', Frontline, July 16, 1999, p. 114)

Terms of reference of the Eleventh Finance Commission, 2000 (EFC) was altered shortly before the final submission of the Commission's report due to an additional mandate which was received by the Commission from the Central government. Needless to say, such alteration was made without prior consultation with either the Finance Ministers of the States and/or with the Inter-State Council. The Sarkaria Commission (1984), however, suggested that before finalising the terms of reference of the Finance Commission the consultation with the States is necessary. Additional mandate received from the Centre stressed that the EFC should draw a monitorable fiscal reform programme aimed at reduction of revenue deficits of the States. With this objective in view, 15 per cent of the total non-Plan grants to be devolved by the EFC plus a matching grants from the Centre was set aside as an incentive fund. The States facing acute deficits are required to draw Medium-Term Fiscal Reform Programmes (MTFRP) following the guidelines of the EFC. And the incentive fund was said to be distributed among the States at per the assessment of performance of MTFRP by the monitoring group. Interestingly enough, the monitoring group was supposed to consist of officials from the State governments concerned, Ministry of Finance, government of India, Planning Commission and outside experts (Economic Survey, 2001-02). Seemingly, the monitoring agency is to be set up by the government of India but neither by the Inter-State council, nor by the National Development Council, nor any body where both the Centre and the States are represented. That apart, the Constitution of the Indian federation provided for automatic and unconditional devolution of non-Plan grants made by the Finance Commission under the Article 275. Thus the system of linking the payment of non-Plan grants, a statutory transfers, to the performance of the States in implementing the mandated fiscal reforms seems to be clearly beyond the intent and spirit of the federal structure.

In view of the above the West Bengal government drew up Medium-Term Fiscal Reform Programme (MTFRP) with the basic objective of reducing the revenue deficit as a percentage of revenue receipt by 5 per cent in each year from 2000-01 onwards with reference to it's level for the year 1999-00. It was expected by the State that implementation of Medium-Term Fiscal Reform Programme would be a collaborative exercise on the part of the Centre and the State. Though the State has achieved significant reduction of revenue deficit as a percentage of revenue receipt i.e., which has fallen from 91 per cent in 1999-00 to 58.5 per cent in 2002-03. Nevertheless, as complained by the State, the Central transfers to the State due to mainly two reasons have significantly come down over the last five years making it difficult for the State to achieve it's target. First, during the first three years the deficit grant as recommended by the EFC was available on a sharply declining scale. Secondly, it has become increasingly difficult for the State to live up to the EFC's expectation of reducing revenue deficit on account of significant shortfall of resource transfers from the Centre to the State which would be discussed in detail shortly. In a situation like this the State "suggests that that the single monitorable objective (i.e., reduction of revenue deficit as a percentage of revenue receipt by 5 per cent every year) in terms of which the performance of a State under the medium–term fiscal reform programme is judged needs to be reviewed. For instance, among others, if a State has already achieved a reduction in the ratio of revenue deficit to revenue receipt by more than 25 per cent before five years, the year to year reduction clause may be modified.” (Memorandum to the Twelfth Finance Commission, GOWB, July 2003, pp. 14-15)

Medium-Term Fiscal Reforms Programme prepared by a number of States aimed at phasing out revenue deficit and reducing fiscal deficit is expected to form the basis of a Memorandum of Understanding (MoU) between the States and the Ministry of Finance, government of India. Thus MTFRP pursued by the States was considered as a preliminary exercise of MoU to be entered with the deficit-ridden States in order to correct chronic and fiscal imbalance of the States finance. How good the intention may be, the manner in which the arrangement of MoU was so far pursued received severe criticism. Because the proposed system of MoU lacks transparency. People at large have no right to know what State-specific conditionalities have been laid down by the Ministry of Finance, government of India. (EPW, March 18, 2000. p. 970) The Party aptly describes that “these recommendations strike at the very root of our federal structure, ushering in an authoritarian centralism in financial matters; they violate the spirit of our constitution; in addition they are unreasonable, illogical and unfair and discriminatory. “ (Peoples Democracy, February, 2001)

Criticising the occasion of Orissa entering MoU arrangement, the Party feels that the rapid implementation of MTFRP and arrangement of MoU could hardly solve the fiscal crisis of the State while the fiscal imbalance of the State in particular seem to be an outcome of the fiscal mismanagement by successive governments of Orissa as well as wrong policies of the Central government. (Peoples Democracy, January 13, 2002) However, such observation appears to be also true for CPI (M)-led Left Front government ruling in West Bengal. But despite such understanding West Bengal agreed on pursuing MTFRP and later on MoU arrangement with the Ministry of Finance, government of India in a desperate need of receiving funds from the Centre instead of seeking alternative arrangements to mitigate it’s acute fiscal imbalance. Till date, as reported by the government of India, the MTFRP has been finalised for nine States, namely Nagaland, Andhra Pradesh, Karnataka, Orissa, Kerala Arunachal Pradesh, Himachal Pradesh, Manipur and West Bengal. So far MoU have been signed with the government of Orissa, Karnataka and Nagaland in consultation with the Ministry of Finance. MoU with respect to six other States i.e., including West Bengal are being drawn up by the respective governments. (Economic Survey, 2001-02)

This is disheartening to note that, the Party has hardly focused on the struggle against the recent threat placed on the autonomy of the States. Instead, it seems that in an attempt to redress the fiscal imbalance, the State has taken easy option. Thus since the late 1980s State’s demand has remained not only confined into mere cosmetic change of the Indian federation but also witnessed complete passivity as regards recent assault made on State's autonomy during 1990s. But in a situation like this it appears that without addressing the basic centripetal bias of the Indian federation, on which the Party aptly focused initially, and recent threat on the State autonomy, relentless endeavour on the part of the State to adjust itself to the Indian federation would neither bring immediate relief to the State nor ensure real State autonomy.

Furthermore, as mentioned above, the State during 1990s also seemed to have placed the focal point of the struggle against the Centre on the narrow objective of industrialising the State which was perceived as a counter-attack against the discriminatory attitude shown so far by the Centre towards the State. Broadly speaking further industrialisation of the States in general and West Bengal in particular does not automatically lead to more resources of the States in the form of income tax, corporation tax, excise duties and the State level sales tax to an equal extent unless the federal fiscal relations are restructured radically with a view to providing greater financial autonomy to the States.

Before the recommendation of the Tenth Finance Commission (TFC), 1992 a certain percent of Central taxes such as proceeds from the income tax (except corporation tax) and excise duties was shared with the States. Alternative scheme of devolution was introduced by the recommendation of the Tenth Finance Commission. Accordingly 29 per cent of the proceeds from all Central taxes and duties was proposed to be shared with the States thus enabling the States to enjoy the aggregate buoyancy of all Central taxes instead of sharing few taxes. However, the proposed amount of 29 per cent of divisible Central tax has given rise to lots of debates. It seems that 29 per cent proceeds from all Central taxes would hardly augment the resource position of the States while the States was earlier used to receive as much as 29 percent or slightly less than that before the recommendation of the Commission.[79]

The State government also have repeatedly urged the need for an increase in divisible portion of Central taxes. With this objective in view the State gave a definite guideline before the Twelfth Finance Commission. The State noticed that the justification of sharing at least 50 per cent of the all Central taxes with the States would be understood if the principle mentioned below is followed by the Commission. "The Central taxes should be shared with the States in such a way that the Central taxes net of transfer to the States and the State taxes including the share of Central taxes bear the same proportion to the developmental expenditure of the Centre and the States respectively".(Memorandum to the Twelfth Finance Commission, GOWB, July 2003, p. 8) Thus on the basis of the relative

[79] The tax devolution to the States as a percentage of the total tax revenue receipts of the Centre increases from 15.7 per cent during 1952-57 to 20.3 per cent in 1977-78. The percentage jumps to 28.44 per cent in 1979-80 and 28.77 in 1980-81. Such sharp increase of the percentage share of the States could be explained by the sharp hike of the divisible pool of union excise duty from 20 per cent to 40 per cent under the recommendation of the Seventh Finance Commission. However, the percentage starts showing declining tendency after 1980-81 and stabilises around 25 per cent during the last part of 1980s. (Gurumurthi, S, 'Towards an Alternative System of Tax-Sharing in India', EPW, March 20-27, 1993, p. 527)

development expenditure of the Centre and the States there is a strong principled and logical justification for raising the share of Central taxes to at least 50 per cent. In the meeting of the Standing Committee of Inter-State Council it was also decided that the divisible portion of the Central taxes be raised to 33.3 percent to begin with and thereafter to 50 per cent. (ibid., p. 7)

Of major disadvantages of alternative resource devolution scheme, it is expected that the Centre would keep continuing it's usual practice of rising non-sharable revenue by increasing administered prices instead of reviewing the excise duties resulting in shortfall in the divisible portion of the Central taxes. Moreover, as a part of economic liberalisation, as mentioned above, Voluntary Disclosure of Income Scheme (VDIS) was introduced in the 1996-97 with a view to unearth 'black money' of the Indian economy. The State aptly demanded that the States in general should be able to share the proceeds from the VDIS as an additionality and should not be set off against arrears payable to States. Because as proceeds from the VDIS arose out of evasion of tax over a period of time. If the taxes had not been evaded the States would have got higher tax devolution in the respective years as a matter of rightful claim. Thus, there is no reason why the States should lose a substantial part of it's share merely because this has been collected on a later date chosen unilaterally by the Centre. (Memorandum to the Eleventh Finance Commission, GOWB, December 1998, pp. 4-5)

It was argued that one of the major advantages of the alternative devolution schemes is that the States would be able to share the buoyancy of all Central taxes. Recent massive decline of tax-GDP ratio of the Central government seems to have wiped out the expected benefit of the scheme likely to be enjoyed by the States. During 1990s several tax reforms have been introduced in regard both the direct and indirect taxation that coupled with the structural shift in the composition of GDP more towards the less taxed services sector have affected the growth in the Central tax revenue. The tax-GDP ratio of the Centre has suffered steady deterioration from 10.1 in 1990-91 to just about 8.1 in 2001-02. (RBI Bulletin, May 19, 2003) Likewise, tax buoyancy of the Centre also reduced drastically. Between the Eighth and Ninth Plan periods the buoyancy of the Central taxes deteriorated from 0.9 to 0.8. Though the buoyancy in direct tax collection was maintained at 1.3 between these periods. But the buoyancy in indirect taxes declined from 0.7 to 0.6. (Economic Survey, 2002-03) Thus it seems that buoyancy in direct tax collection has been overshadowed by decline in the buoyancy of indirect tax.

On the direct tax front certain measures were taken aiming to further progress towards widening the tax base, rationalisation and simplification of tax structure and encouraging voluntary compliance that resulted in increased buoyancy in direct tax during 1990s. Thus direct tax revenue of the Centre as a proportion of GDP increased from 1.9 per cent in 1990-91 to 3.2 per cent in 1997-98 and then slightly declined to 3.0 per cent in 2001-02. (Economic Survey, 2002-03) Considering separately, among direct taxes, personal income tax as proportion of GDP increased from 1.9 per cent in 1990-91 to 3.0 per cent in 2001-02. On the other hand corporation income tax increased from 0.9 per cent to 1.6 per cent during the same period. (Economic Survey, 2002-03)

Even though both direct taxes showed increasing trend, the problem of non-compliance as regards corporate income tax is a matter of great concern while zero-tax companies have become a growing phenomenon in the Indian corporate sector. Several incentives in corporate taxation system in India were introduced from time to time. Eventually "some highly profitable large corporates have been able to reduce their tax liability to nil or a nominal level consistently over a long period through astute planning by utilising of innumerable tax concessions and fiscal incentives[80] available under the corporate tax structure. (Sharma,1997, p.417) With a view to bring such zero-tax companies into tax net the Central government made concerted attempt in the past at least on two occasions i.e., in 1983-84 and 1987-88. And lastly in 1996-97 an arrangement of Minimum Alternative Tax (MAT) was introduced to bring zero tax companies into tax net.

Despite such attempts 45 top corporate sectors were recently identified who did not pay even the Minimum Alternative Tax. (Godbole, 2002, p. 4887) In addition, as mentioned above, corporate sectors often manage to bring down the effective rate of corporate taxation by taking advantage of different fiscal incentives. Recent analysis made by the Task Force Reports on Direct Tax and Indirect Tax, 2002 reveals that there has been a large divergence between statutory rate and effective rate in the corporate tax in India. Thus the effective corporate tax rate of a sample of 3, 777 companies in 1999-00 was just 21.7 per cent as against the statutory rate of 38.5 per cent. Similarly the effective corporate tax rate of a sample of 2,585 companies in 200-01 was 21.9 per cent as against the statutory rate of 39.5 per cent. (ibid.,) In view of the above, it seems that had these large corporate sectors been brought effectively under the tax net, divisible pool of Central tax would have been much higher. Thus greater enthusiasm of industrialisation, as argued above, does not automatically lead to a greater resources of the States.

In the area of indirect tax the process of rate reduction, rationalisation and simplification was further carried forward as a part of ongoing tax reform pursued since1990s that led to reduction in the buoyancy of exercise duties. Indirect taxes as a proportion of GDP declined from 7.9 per cent in 1990-91 to 5.9 per cent in 1997-98 and further 5 Per cent in 2001-02. (Economic Survey, 2002-03). Such reduction in excise duties can be explained due mainly to two reasons. Firstly, the system of Central excise was drastically overhauled with the introduction of a single Central Value added Tax (CENVAT) of 16 per cent ad valorem on all manufactured

[80] It includes investment allowances tax holiday in respect of new industrial undertakings, deduction in respect of scientific expenditure, export promotion allowances, depreciation allowances etc. (EPW, Feb 22, 1997)

goods with a few exceptions. Thus the decline in excise to GDP ratio reflects lowering of rates and extension of input credit system under MODVAT/CENVAT. Furthermore, CENVAT/MODVAT (i.e., modified Value Added Tax) was introduced in order to minimise the cascading effects of multi-point excise levies. (Gurumurthi, 1999, p. 2879) But the progressive extension of MODVAT to the whole industrial sector led to a drastic reduction in the proceeds from excise duty to GDP while some maladies regarding the application of MODVAT could not be removed completely. (Mohan, 2000, p. 2030) Secondly, the proceeds from excise duties decreased due mainly to the fact that during 1990s industrial growth was not as high as had been expected from the economic reform pursued since 1990s. During1990s both the primary sector (2.8 per cent) and the secondary sector (5.7 per cent) grew much at lower pace than that of the service sector which grew at 7.8 per cent per year. But the services largely remain untaxed at the Central level. (Rao,2002, p. 3265)

Within the indirect tax the decline in customs was more pronounced. The decline in the share of the customs duties is the result of a conscious decisions taken as a part of economic liberalisation to make the Indian industries competitive and to integrate with the global economy. Thus fall in customs can be explained by a steep decline in the peak customs tariff. The proceeds from custom duty as proportion of GDP has declined from 3.6 per cent in 1990-91 to 1.8 per cent in 2001-02. (Economic Survey, 2002-03)

On the whole indirect tax have always claimed increasingly larger share during the past decades. In 1982-83 while total taxes amounted to 17.1 per cent of GNP. Of which only 3.4 per cent was attributed to direct tax and remaining 14. 6 per cent to indirect tax. Such trend continued also during 1990s. Collection from direct tax constituted only 36.9 per cent of gross tax revenue while indirect tax revenue constituted 62.2 per cent in 2001-02. Therefore, the enhancement in direct tax to GDP has been outweighed by a decline in indirect tax to GDP ratio thus relatively higher buoyancy of direct tax has failed to raise the tax-GDP ratio. (Economic Survey, 2002-03)

Evidently, significant shortfall in the Central tax/GDP ratio has adverse effect on divisible portion i.e., transfers from the Centre to the States. Considering West Bengal separately, it is noticed that in the year of 2001-02 West Bengal’s share of Central taxes fell short of the projection of the EFC by Rs. 736 crore. In the year 2002-03, West Bengal’s share of Central taxes again fell short of the estimate of the EFC by Rs. 1400 crore. According to Union budget estimates for the year 2003-04, the State’s share of Central taxes will fall further short of the EFC’s estimate by about Rs. 2000 crore. (Memorandum to the Twelfth Finance Commission, GOWB, July 2003, p. 14)

On account of the above mentioned situation, it seems that increased volume of income tax, corporation tax and excise duty due to recent major thrust given on rapid industrialisation by the States in general and West Bengal in particular would not automatically ensure increased volume of resources of the States. Likewise, potential rise in sales tax collection due to the expected increase in business activities would hardly make any impact on the States resource position as long as disharmony in sales tax system will be left unattended. Such disharmony leads not only to varying point of levy of sales tax (i.e., first point, double point and multi-point sales taxation) in the States but also multiple sales tax rates on the same commodity across the States due to various objectives resulted in complicated sales tax structure. Such multiple sales tax rate made an conducive environment of rate wars where the States tend to reduce sales tax rates below those of neighbouring States in an effort to divert trade from others and this leads to considerable loss of revenue. That apart , over time the States in general shifted towards first point of levy due mainly to administrative consideration which leads to narrow sales tax base. With a narrow base sales tax rates need to be high in order to collect intended revenue. With the same objective in view various experimentation in the form of surcharges and turnover tax are also imposed. Eventually, higher tax rates combined with the problem of cascading (i.e., taxation of inputs as well as finished output) leads to pressure for tax incentives from business communities, tax avoidance, weak enforcement by administrators and thus potential revenue loss from sales tax. Another major problem as regards sales tax system is that the definition of the powers of excise taxation as well as sales tax refers only to 'goods' without any mention of service. But in the production system of modern economics, service and manufacture are in-separable and the line between goods and services is getting increasingly blurred. Such complication also provides adequate opportunities for sales tax evasion and narrow sales tax base. (NIPFP, 1994)

In addition competitive reduction of sales tax rates in order to attract potential investors in their respective jurisdictions has also considerable adverse impact on the sales tax collection i.e., loss of potential revenues of the States. Evidently, poor and middle income States like West Bengal are net loser of this game without having any commensurate gain. Because an analysis reveals that despite such sales tax incentive investment tend to flow to those region where infrastructural provision is better. (Kurian, February 12, 2000)

Recently West Bengal government admitted that the policy of giving incentive in the form of providing sales tax rebate and deferment with a view to attract potential investors in the State resulted in significant shortfall in sales tax collection of more than Rs. 600 crore during the 2002-03 financial year. Which is being one of main causes of severe financial crisis of the State. (*Rajya Sarkarer Arthik Sankat: Karan Abong Samadhaner Path* (Financial Crisis of the State, Causes and Remedial Measures) Finance Department, GOWB, 30th January, 2003, p. 5)

That apart, due to the ambiguity of the definition of the sales tax spelled in the Constitution the States are not able to levy tax on service sectors. The power to levy tax on services is not mentioned either in the State list or in the Concurrent List of the VII Schedule to the Constitution. However, by virtue of Entry 97 in the Union list which gives power to the Centre for levy and collection of "any tax not mentioned in either of those Lists" the Centre started to impose service tax since 1994-95. Initially, tax on three specified services namely telephone, general insurance and stock brokerage was introduced at the rate of 5 per cent on the value of taxable service. Over the years number of services have been brought under the ambit of service tax. Despite such progressive extension of service tax, services largely remained outside the tax net. The share of the collection from service tax has not been commensurate with it's increasing share in the GDP. Thus while the income from the service sector excluding public administration and defence constitutes more than a third of total GDP in 1998-99, the total indirect tax collected from the service sector by the Central and State government together is only one per cent of GDP or 6.66 per cent of total tax revenue. The formal introduction of service taxes since 1994-95 by the Centre has made only a marginal difference to the over all revenue productivity. (Rao, 2001, p. 4000) Thus as long as service sectors at large will remain outside the domain of the States and Centre's tax net the States will continue to lose potential resources while under the present arrangement neither the Centre nor the States are able to exploit service sectors to full extent.

In West Bengal during the period from 1995-96 and 2000-01 significant improvement was registered in the service sector. Share of trade, hotel and restaurant in the NSDP improves by almost 15 per cent while improvements of the share of banking and insurance sector is around 57 per cent. Thus on the whole share total service sectors[81] in the NSDP of the State increased by 21 per cent during the period from 1995-96 to 2000-01. In contrast contribution of agriculture and manufacturing (both registered and unregistered) in the NSDP has declined by 21 per cent and 9 per cent respectively during the same period. (Chatterjee & Ghosh, 2003, pp. 33-34) However, it was decided by the High Powered Committee[82] that States would be empowered to impose services taxes by the mid of 2004. But it is not decided yet which areas of services will be brought under the States tax net. That apart, in order to get rid of existing disharmony in sales tax system and potential revenue loss, the States and the Centre seem to have reached a common consensus of applying VAT since the middle of 2004 after procrastinating this issue for long period. (*Rajya Sarkarer Arthik Sankat: Karan Abong Samadhaner Path* (Financial Crisis of the State: Causes and Remedial Measures, Finance Department, West Bengal Government, 30th January, 2003, p. 16)

Politics of discrimination

Another important dimension of the problem have been in existence in the State from the very outset along with the evolution of the demand for

[81] Total services includes, trade, hotel and restaurant; banking and insurance; real estate, ownership of dwellings & business services and also other services.

[82] The High Powered Committee, for assessing the financial situation of the States constituted by the Government of India at the suggestion of the State governments on 26th July 2002. The High Powered Committee under the chairmanship of the Union Finance Minister mainly consists of Finance Ministers of different States.

fundamental and later on operational restructuring of the Centre-State relations. That relates to addressing this issue of discrimination at the political plane. Soon after the Left Front government was voted to power, 'discrimination against West Bengal' tended to become the focal point of the whole movement against the Centre. The State felt that that it has been subject to deliberate discrimination due to it's political opposition. However, such allegation of discrimination had also been put forward by the CPI (M)-led United Front government during 1967-69.Over time this aspect tends to outweigh institutional/structural dimension of the movement against the Centre.

The first three decades after Independence, were also fraught with tension and conflict between the Centre and the States. West Bengal government led by the Congress party relentlessly expressed its dissatisfaction about the decision unilaterally taken by the Centre shortly after Independence as regards reduction of the share of jute export duty, reduction of the State's share of the proceeds from income tax, discriminatory refugee rehabilitation policy of the Centre and lastly introduction of freight equalisation policy. All these policies allegedly went against the interest of the State and consequently made it's economic position weaker than the other States. Nevertheless, the then West Bengal government didn't want to perceive these policies as a part of deliberate discrimination made against West Bengal in particular. At the institutional plane of the Centre-State financial relations, the Finance Commissions were accused of attaching incorrect weightages for devolution of resources among the States without following the Constitutional provision properly. Thus, incorrect applications of weightages and consequent adverse impact on West Bengal's resource position was perceived as a limitation of the functioning of the Indian federal structure rather than any attempt of deliberate discrimination against the State in particular.

In contrast, in the subsequent periods commencing from the United Front regime, the allegation of being discriminated against by the Centre and Centrally controlled institutions became a predominant feature in West Bengal's discourse as far as the Centre-State relations are concerned. It would be worthwhile to mention in this respect that since the mid-960s the declining trend of West Bengal's economy started being apparent which was further aggravated by the economic depression of the late 1960s. West Bengal was hit the hardest by this depression and the economic health of West Bengal deteriorated quite drastically. Economic deterioration of West Bengal since the late 1960s seemed to have intensified the feeling of being discriminated against and subsequently the Centre was made responsible for the present plight of the State.

The memorandum submitted by the West Bengal government to the Fifth Finance Commission (1969) prepared by the CPI (M)-led United Front Government bears testimony to this accusation more clearly than any previous official document. Studies undertaken by Roy (1971) and Ghosh (1971), echoed the feeling of the West Bengal government. It was alleged by Roy (1971) that during the colonial period Bengal was made to sacrifice more than it's due share for the benefit of other Provinces and for the expansion of British territory. And there had been continuous wealth drain from the erstwhile Bengal now West Bengal to the rest of the British Indian territory. Wealth drain from West Bengal for the benefit of other States and India seems to have continued during the post-Independence period by denying it's legitimate share resulting in such distressful economic situation of West Bengal. Contrary to that, Bengal Chamber of Commerce and Industry (BCCI) in their different publications during the late 1960s and the early 1970s tried to address this delicate issue from a more balanced perspective and wanted to perceive the problem of deterioration of West Bengal's economy from broader structural, historical and economic reality of the State rather than being trapped into polemical expression of 'discrimination against West Bengal' by the Central government.

West Bengal's economy made a slight recovery by the mid-1970s even though it started lagging behind in terms of almost all economic indicators not only compared to it's own standard achieved in the past but also compared to other industrialised States. It was in this context that the Left Front government came to power in West Bengal in 1977. After having voted to power, CPI (M)-led government aptly started raising voice against the existing imbalance and disorder of Centre-State relations of India and stood for the change of the basic structural mould of the Indian federation. However, in the subsequent period it became more and more confined to mainly addressing the mere operational side of the federal fiscal relations thereby turning more and more to functional aspect of the Indian federation rather than firmly standing for radical restructuring of the existing Centre-State financial relations.

Interestingly, at the political level while addressing the electorate, it was repeatedly emphasised by the Party that West Bengal has been subject to politically motivated discrimination. Thus, instead of perceiving such adversities faced by the State in the context of historical, economic, cultural and existing regressive federal structure of India, the Party started projecting that it is basically time specific, deliberate and politically motivated discrimination against the State in particular. Consequently West Bengal seemed to have been singled out from the rest of the Indian States in the process of such projection that it's comparative economic deterioration is mainly the outcome of discriminatory policies pursued by the Centre. In an attempt to reinforce the allegation of discrimination against the State, the Left Front government tended to put itself in constant comparison with other richer States particularly Maharastra, Karnataka and Gujrat in respect of some economic parameters namely unequal distribution of industrial licenses, comparative low level of credit deposit ratio of the State and low level of Central Plan assistance. Therefore, the pre-dominant tone of this allegation was that while other richer States have been favoured by the Centre, West Bengal became the sole victim of the existing imbalance in the Centre-State financial relations because of it's political opposition to the Centre since 1977. Such constant propaganda of being discriminated in a particular jargon became part of the political weaponry of the State since 1977. Subsequently the State took a lead to mobilise other States against the Centre by forming anti-

Centre conclave[83] However, as mentioned above, during 1990s renewed activism as regards industrialisation of the State was perceived as a struggle against the Centre and Centre's discriminatory policies. It was argued that allegation of discrimination against the State has lost it's ground with the abolition of freight equalisation policy and industrial licensing policy. Thus in the changed context the State has to take necessary initiative to industrialise the State in order to make a counter attack against the prolonged discrimination.

In pursuance of the study of politics of discrimination two broad aspects deserve attention i.e., historical condition which constituted constraints on development of West Bengal along with eastern region as a whole on the one hand and regressive structure of the federal fiscal system of India under which distribution of financial powers and different types of resource allocations between the States and the Centre is determined on the other. Both of these factors eventually determine the position of the State in the Indian federation and the benefits which can accrue to the State compared to other States.

Thus the State in a Indian federation is subject to manly four types of constraints. Firstly, all States being a part of the strong unitary bias of the Indian federation facing a particular set of problems irrespective of their economic position and regional location. Secondly, the State belonging to less developed group has added disadvantage of being discriminated against while rich income States are favoured. Thirdly, being a State belong to disadvantaged region i.e., eastern region, has other typical handicaps due to both historical development and the post-Independence development of this region. And finally there are some State-specific constraints which are also partly the legacy of the pre-Independence

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[83]One of the distinctive features of the Indian politics in the 1980s was the anti-Centre agitation on account of formation of non-Congress governments in different regions and consequently anti-Centre politics has been strengthened. Jyoti Basu, former Chief Minster of West Bengal started a new type of politics which was known as conclave politics. Basu took the lead to gather all anti-Congress governments existing in different States to get organised under the same platform. After the conclave stage was ended Basu started a new chapter of anti-Centre politics in which attempts were made to unify the non-Congress governments and to influence the public opinion for building up an alternative government at the Centre. The main demand, however, was that the component regions must be given greater powers. (Dasgupta, S, West Bengal's Jyoti Basu A political Profile, Gian Publishing House, New Delhi, 1992, pp.79-81)

As Vinod Mishra (1988) former General Secretary of CPIM (L) also observes that "...the Party concentrated on the demand for more money and power from the Centre and for restructuring centre-state relations. For the last ten years this has been the central slogan of the Party, the core strategy for working out a united front of all state governments irrespective of their political colour. The justification given has been that the Centre discriminates particularly against West Bengal and that, with more money and power the state government can indeed do much more for the people." (Vinod Mishra Selected Works, (The Article was written on January 1988), A CPIM(L) Publication, New Delhi, 1999, p. 320) period and partly the outcome of the post-Independence development. Therefore, in pursuance of the study of politics of discrimination, an integrated approach needs to be pursued and the need of examining such problem into particular context instead of perceiving those separately.

Conclusion

If one follows the discourse of politics of discrimination since Independence one can see that there has been a qualitative change in the conceptualisation of the term 'discrimination' over the period. People of West Bengal and hence the government are said to be highly politicised and modernised and hardly became subordinate to the Centre not even during the period i.e. first three decades after Independence, when Indian federalism was characterised by unchallenged unity and consensus. Even during that time West Bengal government led by the Congress party is said to have retained it's independent position and the relation between the Centre and West Bengal was more conflict prone than other States in the Indian Union. Nevertheless, Congress government in West Bengal during the pre-Left Front era did not want to rebel against the structure of the Indian federation nor did they demand any far reaching structural change of the federal system of India through amendment to the Constitution. All they said was that if the Constitutional provisions of Central resource transfers to the States were followed properly i.e., if the criteria for devolving funds were chosen and applied as per with the Constitutional mandate, sufferings of West Bengal would have minimised.

The Congress government argued that the industrialised State like West Bengal according to the Constitutional provision are entitled to tax agricultural sector which was decadent in nature in the State while leaving the taxes like income tax, customs duty which are contingent upon industrial development and hence beyond it's purview. This led to widening the gap between wealth and taxability of the State. Evidently, the return from industrial sector in the form of income tax, customs duty and foreign exchange are appropriated either by the Centre or by other States following the principle of resource allocation recommended by the Centrally controlled resource transfer agencies. Principle of horizontal resource allocations, as felt by the Congress government of the State, are basically guided by the misconceived principle of redressing regional inequality by siphoning off money from the so called industrial State like West Bengal for the benefit of the so called less developed States. Therefore, there had been a clear transference of wealth from West Bengal either to the Centre or to other States by depriving the State significantly. Consequently, Congress government of the State during the pre-Left Front era made repeated plea before the Centrally controlled resource transfers agencies namely the Finance Commission to follow Constitutional provisions properly that would, in their opinion, secure the interest of the State.

However, such style of bargaining underwent a sea change soon after the United Front (1967-69) came to power. During their short tenure they laid the foundation of asking for radical change of the federal structure of India which was further consolidated by the Left Front government since 1977. Overtime there has been a considerable shift from the earlier radical position of the State to more a accommodating position. Having started with raising voice against basic structural lacuna of the Centre-State relations and asking for far reaching radical or structural change of the Indian federation through Constitutional amendment and changing the existing class relations, the State slowly shifted its centre of gravity more towards the operational aspects of federal fiscal relations since the mid 1980s. Thus started accommodating itself with the existing federal system of India and mainly voiced against the functional aspects of the federal fiscal relation leaving aside the demand for basic structural change of the Indian federation.

During 1990s such shift experienced further qualitative and dramatic turn. Leaving aside the demand for basic structural change of the Indian federation, even recent threat placed on the State's autonomy during post-liberalisation era did not receive much opposition from the Party as it deserved. More disheartening feature is, on the one and the Party-led West Bengal government, took the easier option of following the Centre's mandated fiscal reform-linked Central assistance programme aim at redressing fiscal disorder of the State instead of seeking for alternative programme. And on the other hand though the Party's position started with restructuring the Indian federation through constitutional amendment and on the basis of completely different class relations, it ultimately ended up with accepting the very structure during 1990s in an attempt to make the best use of the existing limited autonomy provided to the States in the area of industrialisation during the post-liberalisation period. Needless to say, more resources due to industrialisation does not necessarily ensure more resources to the States in general unless federal fiscal relations are restructured with a view to providing more fiscal autonomy to the States.

Although there seems to be a dramatic shift, a close examination of the CPI (M)'s stand throughout this time period under study, shows that it had been flawed from the very beginning. Party's aspiration of radical restructuring of the Indian federation lack understanding as regards the nature and character of restructuring of the Indian federation from the very outset. Such lack of clarity seems to have eventually led the State to adopt accommodating position. On the one hand the Party feels that striking the balance between the strong Centre and the States are the crux of the demand pursued by the Party. However, the strength of the Centre, as described by the Party, neither legitimises centralisation in the name of upholding integrity and sovereignty of India nor the Party stands for the attempt of weakening the Centre in the name of the demand for so called State autonomy raised by some secessionist forces or some regional parties which have some strong tone of local chauvinism. As against these two trends the Party upholds national unity and integrity of the Indian union while strengthening the Centre and also stands for complete State autonomy. Hand in hand with these two conflicts, there are also two different types of trends as regards the perception of Centre-State relations. The Congress and non-Congress parties i.e., those parties other than Left parties like CPI (M) try to perceive this issue within the same class structure and seek to bring only cosmetic change of the Indian Constitution aiming at ensuring State autonomy. In contrast CPI (M) stands for State autonomy which is based on completely different class relations by radically amending the Constitution of India.

Therefore, the crux of the demand formulated by the Party is to attain the balance between these two countervailing forces. But one fails to understand how such desired balance of ensuring State autonomy and strengthening the Centre will come into force. If such balance is attained through radical restructuring of the Constitution then the question is will it be attained on the basis of same socio-economic and class structure or total restructuring of the Indian polity and economy. The Party seems to be suffering from lack of understanding as regards this question. While in one occasion, the Party describes that the desired balance of ensuring State autonomy and strengthening the Centre should be set on radical restructuring of the existing class relations and on the other hand the Party seems to accept the existing class relations while stressing the need for upholding and protecting national unity in order to combat ongoing secessionist movements in Indian territory. Therefore, it appears to us that the Party legitimises authoritarian centralisation for the sake of upholding existing frame of national unity which is, quite evidently, based on the same class structure. Close examination of the State-local relation tend to strengthen our apprehension. An analysis reveals that authoritarian centralism has been practised as against democratic centralism upholding Party hierarchy in this area.

Another dimension of the struggle against the Centre led by the Party also needs to be addressed. At the political plane, while addressing the electorate the Left Front government brought the populist stance of being discriminated against by the Centre and held the Centre responsible for it's present deterioration. Consequently the demand for radical restructuring of Indian federation which was aptly addressed by the Left Front during the late 1970s and the early 1980s started being overshadowed by this slogan. Therefore, the whole movement against the Centre since the mid 1980s in West Bengal was based on the basis of such an emotive slogan of being discriminated against by the Centre in relation to distribution of industrial licence, institutional finance and allocation of Plan outlay compared to other States namely high income States. Eventually, it started to single out itself not only from the rest of the Indian States but also from the historical, cultural and economic reality of the State while expressing that the State has been subject to discrimination. Thus, instead of perceiving these issues in respect to these realities the State started emphasising that it is basically politically motivated, time specific and deliberate discrimination against the State in particular due to it's political opposition. Seemingly politics of discrimination which has become main weapon of the struggle against the Centre particularly during the whole 80s and early 90s lacks integrated approach of perceiving the problem from the broader perspective. Such lack of perspective seem to have less and less impact on the common people of the State consequently has given rise to diminishing return from blaming the Centre.

Appendix

Table: 1

Percentage Distribution of Share of Income Tax of Different States/Provinces

Provinces/ States	Pre-Partition Share	Share Under Government of India allocation after Independence	Share under Desmukh Award
Madras	15	18	17.5
Bombay	20	21	21.0 @
West Bengal	20 @	12	13.5
Uttar Pradesh	15	19	18.0
Punjab	8 @	5	5.5
Bihar	10	13	12.5
Madhya Pradesh	5	6	6.0
Assam	2 @	3	3.0
Orissa	2	3	3.0

Source: Gurumurthi, S, Fiscal Federalism in India Some Issues, Vikas Publishing House Pvt. Ltd. New Delhi, 1995, p. 23
@ relates to the undivided provinces

Table: 2
Percentage Distribution of Refugees in Different Eastern States
(Till November, 1971)

States	No. Of Refugees	Percentage of the total
West Bengal	7.5 million	76 %
Tripura	1.4 million	15 %
Meghalaya	0.7 million	6 %
Assam	0.3 million	3 %
Total	9.9 million	100 %

Source: Bandyopadhyay, S, ' Millions Seeking Refuge The Refugee Question in West Bengal: 1971 in Bose, P.K (ed.) Refugees in West Bengal Institutional Process and Contested Identities, Calcutta Research Group, Calcutta, 2000, p. 35

Table: 3
Population Density of Different States and Percentage of Land Utilisation Between 1951 and 1961

States	Percentage of population increase (1951-61)	Population density per square mile On the basis of 1961 census	Percentage of net area sown to total geographical area of the States (1956-57)
(1)	(2)	(3)	(4)
Andhra Pradesh	15.63	339	41.4
Assam	34.30	252	9.4
Bihar	19.78	691	44.6
Bombay	--	--	55.0
Gujrat	26.80	286	--
Jammu Kashmir	9.73	NA	3.0
Kerala	24.55	1,125	47.1
Madhya Pradesh	24.25	189	35.0
Madras	11.73	671	44.9
Maharastra	23.44	332	--
Mysore	21.36	318	52.5
Orissa	19.94	292	36.0
Punjab	25.80	431	60.1

Rajasthan	26.14	152	36.3
Uttar Pradesh	16.67	650	57.6
West Bengal	32.94	1,031	59.1
All India	21.49	384	--

Source: For column 2 & 3 Memorandum Submitted to Third Finance Commission, Government of West Bengal, 1961, p. 61; For Column 4 see ibid., p. 63

Table: 4

Percentage of Income Tax Receipts to Collections of Respective States Between 1958-59 and 1969-70

States	1958-59	1967-68	1968-69	1969-70
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	132.3	128.2	125.3	147.5
Assam	133.1	134.7	112.0	173.8
Bihar	182.8	301.0	205.1	273.7
Bombay	19.4	--	--	--
Gujrat	--	40.0	37.5	41.5
Haryana	--	153.8	133.1	181.3
Jammu & Kashmir	373.9	156.1	110.1	156.5
Kerala	88.5	101.9	87.3	114.2
Madhya Pradesh	187.8	169.1	152.4	140.0
Maharastra	--	30.1	26.7	25.5
Madras	49.6	--	--	--
Mysore	86.9	106.1	77.7	95.8
Orissa	393.1	307.2	279.0	346.2
Punjab	103.9	53.0	52.5	57.7
Rajasthan	192.5	201.4	180.7	187.2
Tamil Nadu	--	66.7	54.7	62.5
Uttar Pradesh	216.4	200.5	171.7	198.3
West Bengal	16.2	51.3	48.1	52.0

Source: Column 2 see Memorandum Submitted to the Third Finance Commission, GOWB, 1961, p. 55; For Column 3 and 4 see Memorandum Submitted to Sixth Finance Commission, GOWB,1973, p. 57

Table: 5

Per Capita Share of Central Taxes and Statutory Grants (Article 273 & 275) Between 1952-53 and 1966-67
(In Rs.)

States	1952-53	1957-58	1962-63	1966-67
Andhra Pradesh	--	--	--	10.6
Assam	4.8	10.8	13.0	19.9
Bihar	2.3	4.3	4.8	6.5
Bombay	2.6	4.3	7.5 *	--
Gujrat	--	--	--	8.7
Jammu & Kashmir	--	--	--	32.8
Kerala	--	--	--	18.6
Madhya Pradesh	1.7	4.9	6.2	7.6
Madras	4.1	3.3	6.8 **	9.9
Maharastra	--	--	--	9.8
Mysore	2.0	6.5	7.7	15.0
Orissa	2.7	5.6	13.9	22.6
Punjab	2.5	4.9	6.0	7.1***
Rajasthan	1.7	5.0	7.7	9.9

Uttar Pradesh	**2.0**	**3.1**	**4.1**	**7.8**
West Bengal	**4.0**	**6.1**	**5.8**	**8.4**

Source: Memorandum Submitted to Fifth Finance Commission, Government of West Bengal, 1969, p. 13

- **Including Gujrat**

**** Including Andhra Pradesh**

***** Including Haryana**

Table: 6

Per capita Expenditure on National Building Heads of Different States

Between 1952-53 and 1968-69 (Rs.)

States	Actuals 1952-53	Actuals 1957-58	Actuals 1962-63	Actuals 1966-67	Revised 1967-68	Budget 1968-69
Andhra Pradesh	--	9.9	18.7	25.9	27.6	27.5
Assam	7.8	17.2	25.6	39.2	37.9	38.4
Bihar	3.8	8.4	10.7	15.7	15.6	15.8
Gujrat	6.5*	10.5*	17.6	29.5	33.5	36.1
Maharastra			16.7	29.9	32.5	33.6
Kerala	6.0	14.0	27.6	35.0	41.5	45.7
Madhya Pradesh	3.4	9.2	16.1	20.8	24.7	28.4
Madras	12.7	11.2	24.0	31.4	35.2	37.4
Mysore	4.5	18.2	25.7	28.4	33.1	36.8
Orissa	4.2	8.1	22.3	27.4	32.5	34.0
Punjab	3.9	12.0	21.8	28.0 @	33.2@	40.6
Rajasthan	4.2	8.9	15.7	26.2	33.7	33.5
Uttar Pradesh	3.8	7.8	14.5	16.4	18.5	19.9
West Bengal	6.6	12.5	16.8	25.2	28.5	30.0

Source: Memorandum Submitted to Fifth Finance Commission, Government of West Bengal, 1969, p. 16

***Gujrat & Maharastra Combined**

@ Including Haryana

Chapter: 3

History of Economic and Industrial Development of West Bengal Including Eastern Region

In pursuance of the integrated approach of addressing the question of politics of discrimination, four different dimensions faced by a particular State in the Indian federation needs to be examined as was described in the chapter 2 of this study. This chapter intends to deal with the problem of some State (West Bengal)-specific adverse factors operating on the State's economy from the past namely permanent settled land revenue policies, export orientation of West Bengal's economy and lack of regionally committed enterprises. That apart, West Bengal belonging to eastern region had also faced some unique and region-specific constraints. Consequently this also constituted adverse impact on its economy and made the State lagging behind other advanced States in the Indian federation.

Why is eastern region as a whole lagging behind?

Broadly speaking, Bihar, Assam, Orissa and West Bengal comprises the eastern region of India excluding all others small Union territories grouped as special category States. There is a feeling that eastern region as a whole has been suffering from low productivity, low resource mobilisation and consequently low level of economic and business activities. By the same token low financial assistance by both Centrally controlled financial institutions and commercial banks resulting in further low level of public and private investment.

The question immediately arises that why was this region discriminated against or why other regions were favoured than the eastern region. And why eastern region though abundant with natural resources and in possession of other comparative advantages has been lagging behind others? The answer seems to lie in the historical development of different regions from the pre-Independence period. The study undertaken by Bharadwaj (1982) reveals that "The eastern region, the first to come under complete domination of the British was the base from which the further territorial expansion took place.....However the imperial policy differed considerably from region to region, in terms of the type of land settlement and the extent of commercial penetration into the agrarian economy. This, coupled with the differential policy towards public investment (in irrigation and railways) had a very diverse impact on the different regions. These differences were important in shaping the future pattern and rate of industrialisation during the inter-war and post-Independence years and the rise of the capitalist and financier classes in the regions. Even after Independence, ...this legacy has continued to play an important role." (Bharadwaj,1982, pp. 605-606)

The pattern of industrialisation in the eastern region was marked by export oriented and European dominated industrialisation. That was quite different from that in other regions namely the western region where domestic industries mainly served domestic market and were established by regional capitalists. The type of industrialisation in different regions, as we have said earlier, was the outcome of several factors, one of which being the type of land settlement introduced in different regions during the pre-Independence period. Broadly speaking Permanent Settlement in land introduced in eastern region in 1793, on the one hand prevented the land from being more productive while adequate public irrigational work was not undertaken on account of land revenue being fixed in perpetuity. On the other hand *Zemindars* did not take much interest in the improvement of land through the privately-owned minor irrigation works while the *Zemindars* himself was in the process of sub-infeudation. Consequently his primary interest was in unproductive consumption of surplus generated in land rather than productive cultivation. This resulted in low potential for mobilisation of capital for industrialisation by the regional capitalists. On the contrary, productive investment on land through extensive public irrigation work was more attractive in Punjab, Madras, Bombay than in the Permanently Settled areas i.e. in Bengal, Bihar, Orissa and United Provinces and hence created more conducive environment for reinvestment of the surplus generated in land in industrial development by the local capitalists.

Furthermore, the process of de-industrialisation and slow decline of the household industries and crafts took place in the eastern region with the advent of British. Prior to colonial expansion eastern region made considerable progress in these sectors. But in course of time, European capital and commerce started dominating the region which was more interested in mobilising local funds for export-oriented commercial activities while leaving little funds for the expansion of indigenous industries. This led to further decline of local industries and decreasing demand for the indigenous products in the domestic markets. Because on the one hand the market was flooded by imported goods from Britain and on the other hand prosperity of the people and hence purchasing power was on the decline in the eastern region. On the contrary in the hinterland of Bombay, local merchants and financiers were in better control of commerce. For there was a significant survival of handicrafts and small scale industries in this region and the demand for indigenous products was not curbed by colonial penetration as it was the case in eastern region. Subsequently the western region comprising Bombay, Gujarat produced a prominent regional industrial class which laid the foundation for future industrialisation of this region in the post-Independence period. (ibid., p. 607) By contrast eastern region was marked by lack of emergence of the class of local capitalists and hence lack of expansion and development of local industries. In course of time the region developed as an enclave type export-oriented industrial region dominated by Europeans which however, necessitated huge public investment in the railways in this region since the later part of the 19th century (Thavaraj, 1955). Therefore, though the region did not attract sufficient public investment in irrigation, later on it had its good share of public investment in railways required for export-oriented industries located in the region.[84]

After Independence as a part of Centralised Planning model emphasis was placed on setting up heavy capital based basic industries. Eastern region attracted the major share of public investment during this time due to its comparative advantage and natural resources base. Yet the large public sector investment, these regions have not become diversified industrial economies.[85] However, the expectation of the planner was that "large scale industries specially basic and heavy industries frequently serve as a spearhead of intensive and broad based development". (quoted in Alagh, Subrahmanian & Kashyap, 1971, p. 801) Over time this expectation of the Planner did not come true. Experience shows that "public sector investment has led to an enclave-type of development in the less developed regions and 'spread effect' within the respective regions has been low." (Alagh, Subrahmanian & Kashyap, 1971, p. 801)

Major decision of the expansion of capacity in the basic and heavy industrial sector in the eastern region, however, remained elusive on account of cut-back in the Central government's expenditure in the face of acute industrial recession since the mid-1960s. Public investment on key areas of infrastructure declined. Therefore, the programmes for expansion of capacity for power generation, investment on additional capacity for steel and increasing the capacity of transport were stalled due to acute crunch of fund. Consequently, expansion of heavy capital based and engineering

[84]Regional distribution of public irrigation was conspicuously uneven as observed by the study undertaken by Thavraj (1955) and there was almost no development in irrigation in eastern region. But eastern region had its fair share in the public investment in railway expansion since the later part of the 19th century. Since the priority was placed on "as much due to military strategic considerations as due to their being the means to provide feeder transport network for exports as well as for the European-capital dominated exports oriented enterprises in the port enclaves." (Bharadwaj, K, 'Regional Differentiation in India', EPW, April, 1982, p.607)

[85]Comparative examination of industrial base in different regions and the degree of their diversification reveals that the states, Assam, Orissa and Bihar in the eastern region were less industrially diversified than other regions of India during the period between 1956 and 1965. However, West Bengal though belonging to the eastern region started its journey with diversified industrial base. But over time the level of diversification of West Bengal remained rather constant and subsequently it started lagging behind other Indian States, These States, however, managed to attain more diversification in their industrial base between 1956 and 1965. It is noticed that middle level and less diversified regions in general specialised in resource based industries and capital goods industries while the more diversified regions have in their base in those industries producing capital goods and demand oriented consumer goods. Over time eastern region as a whole failed to diversify its industrial base from heavy capital based to demand oriented consumer goods industries which possess high elasticity. (Alagh, Y.K, Subrahmanian, K.K & Kashyap, S.P, 'Regional Industrial Diversification in India', EPW, April 10, 1971) However, the structural pattern in the industrial sector has close association with the pattern of income distribution. Since the mid-1960 industrial production was more directed towards the satisfaction of relatively high-income groups of people resulting in a decline in the growth of capital and basic industries. (Banerjee, D, 'Industrial Stagnation in Eastern India A Statistical Investigation', EPW, February 20, 1982, p. 297)

industries which formed the core of the industrial structure in the eastern region, suffered severely. (Sau, 1990, p.1020)

Due to lack of adequate funds heavy capital based industries in the eastern region started suffering from lack of modernisation, obsolescence of machinery, low level of dispersal of the industries and lack of diversification of the product mix. Freight equalisation policy introduced in 1956 is said to have further robbed away the advantage enjoyed by the eastern region. During the period 1970-85 income from manufacturing sector of the eastern region increased by 51.9 per as against 87.8 per cent of all India average and the share of the eastern region in the total income from manufacturing sector in India declined from 18.6 per cent in 1970-71 to 15.1 per cent in 1984.85. (Sau, 1990, p.1020)

Economic deterioration of the eastern region as a whole during the last few decades compared to other regions in India in terms of some economic parameters i.e., growth of industrial development, banking finance, decline in number of industrial licences, installed capacity of power and own resource mobilisation capacity are being evident from tables from 1 to 7 (see Appendix). It is also worthwhile to note that agricutural production in the eastern region as a whole was also quite low during the first four decades after Independence which had, however, negative feed back on the expansion of industries in this region (see table 8 in Appendix). These figures are self-explanatory and do not need further elaboration.

However, low level of economic activities and resource generation and hence low level of investment in eastern region leads to vicious circle which makes it difficult for the region as a whole to cut the knot and to take off in the path of massive development. It would be worthwhile to mention here a comment made by Ashok Mitra (1979) the then Finance Minister of West Bengal. He said: "An arrangement was thus set which was self-aggravating; the eastern region was denied any sizeable public sector outlay under the Plan and at the same time, funds from banks and financial institutions also made scarce, so that little possibility existed of any significant headway being made by any of these states in the industrial, commercial and agricultural sectors. And once their rate of growth was slowed down in this manner, this poor rate of growth could be and in fact was, made the alibi for further lowering the share of Plan funds and institutional resources for the eastern states...."(Quoted in EPW; March 24-31, 1979, p. 615)

There is a feeling that erstwhile Bengal was subjected to the highest form of colonial penetration and exploitation and had suffered most from control of European trade and capital as was discussed in the preceding part of this study. After Independence there has been an allegation against the Centre to discriminate against West Bengal. However, it is noticed that West Bengal as a part of the eastern region has been the victim of historical and economic reality of the region. The legacy of different land settlements and public investment policies consequent upon different types of industrialisation in different regions coupled with diverse policies pursued by the Centre in the post-Independence period affected the region as a whole including the State in more ways than one and hence laid the foundation for its future course of economic development in the subsequent decades. Therefore, necessary attention should now be paid to the historical, social and economic development of the State in particular in order to grasp the problematic of discrimination against the State.

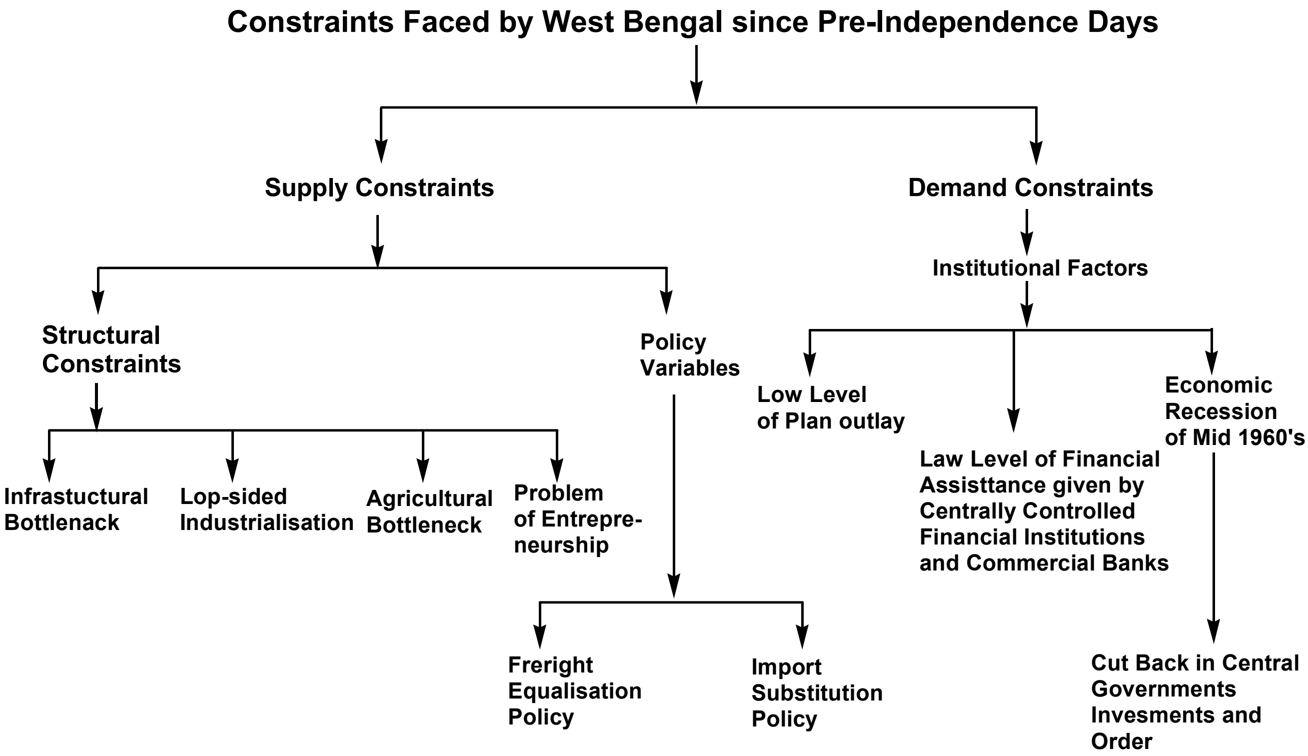
Structural and historical constraints placed on West Bengal's economy

Bengal started its journey as a Province of India with a highly vulnerable, narrow based, colonial-style-industrial structure with over-concentrated industrial expansion within limited areas of the State leaving most parts of it industrially underdeveloped. The Minister of Planning Mr. D. P. Dhar told Lok Sabha on 25th August 1972 that West Bengal's industry had a colonial base, a colonial orientation and promised that government of India would take an attempt to diversify the State's industrial structure. (Bhaumik,1987 p.23) However, West Bengal or erstwhile Bengal was one of the most industrialised Provinces of India and it managed to retain its supremacy until the mid-1960s. Nevertheless, inherent structural weakness of the industrial base of West Bengal made it more vulnerable to economic fluctuations which was revealed with the outbreak of the First World War and the economic depression of 1930s. Again in the post-Independence period when industrial recession after the mid-1960s struck its economy. West Bengal appeared to be hit the hardest by these two recessions compared to the other States or erstwhile Provinces of India.

Various constraints had been in operation on West Bengal's economy since the pre-Independence period and could be categorised into two broad areas viz. the demand side and the supply side constraints. Supply side constraints are broadly divided into structural constraints and policy variables. The structural constraints consist of infrastructural bottleneck, lopsided industrialisation, agricultural bottleneck and the problem of entrepreneurship in the State. Policy variables which had retarding effects on West Bengal's economy consist of freight equalisation policy (1956), industrial licensing policy (1951), import substitution policy.

However, three types of institutional factors were on operation in the demand side constraints. One is the industrial recession after the mid-1960s that resulted in massive cut back in the Central government's demand for basic industrial inputs for the engineering industries located in West Bengal and consequent deterioration of industrial activities and hence of the overall economy of the State. Another one was related to the disbursement of low level of institutional (Centrally controlled financial institutions and commercial banks) and non-institutional (budgetary transfers) finance to West Bengal since the late-1960s and particularly since the early 1970s. Therefore, the State was further affected by the allocation of significantly low level of Plan outlays particularly since Fourth Five Year Plan and low level of financial assistance by the Centrally controlled financial institutions which did not seem to help it from recovering the State's industrial stagnation. (**See Chart 2)**

Chart: 2



Limited and lop-sided industrialisation in Bengal

(i) Colonial-style industrialisation

During the pre-Independence period industrial structure of Bengal consisted mainly of export-oriented industries namely jute, plantation (tea) and extractive mining (coal) which became more recession-prone during the economic depression of 1930s than other industries located in different other Indian Provinces. Jute manufacture, one of the important industries of Bengal, was mainly in the nature of capital or intermediate goods and was geared for export market whereas cotton manufacture-one of the major industries in the western part of India was primarily of intermediate (cotton yarn) or consumption nature (cotton cloth) and mainly served the home market. During the period of economic depression of 1930s when most of the industries in Bengal went through recession due to lack of demand from foreign market and net investment by the firms controlling them had slowed down or vanished altogether, the cotton textiles industries in the western part of India not only withstood the effect of the recession quite well but also the total consumption of cotton piece goods in India continued to expand though not continuously after the First World War. (Bagchi,1972, p. 6) The other major industries of Bengal such as coal[86] and tea were also like jute, extremely dependent on export market and hence the economic crisis of the 1920s and the depression of the 1930s also hit these industries badly.

Introduction of tariff protection[87] for the cotton, sugar, steel and paper industries did help industrial growth in Bengal. But jute, one of the major industries in Bengal not only did not enjoy any protection but also export duties on jute which was imposed on 1916 as an emergency measure during the First World War, was further extended in the subsequent years much to the detriment of this industry. "Hence the relative decline in the industrial importance in Bengal compared to western India comprising Maharastra and Gujarat caused by the decline of the jute and other export based industries was not fully checked by the growth of other industries (on account of the tariff protection) in eastern India". (Bagchi,1972, p. 85) However, during the Second World War the export industries in Bengal mainly jute recovered to some extent from its slackening period of depression and managed to secure profit but "wartime shortages of supplies of machinery, restrictions on capital issues and foreign control did not permit a renovation of their badly eroded capital stock." (Bagchi, 1998, p. 2975)

[86] The coal industry witnessed a remarkable expansion during the First World War and the early post-War periods. Since early 1920s with the onset of trade depression the industry experienced a set back. However, till early 1920s coal served mainly domestic market. Later on upon the recommendation of Indian Coal Committee (1925) Indian coal started penetrating foreign markets and made considerable progress. But again the depression of 1930s threw this industry out of gear. (Prasad, B,M, Second World War and Indian Industry 1939-45, A Case Study of the Coal Industry in Bengal and Bihar, Anamika Prakashan, New Delhi, 1992, pp. 8-9)

[87] Until the First World War British India followed the free trade doctrine. During this War lack of self-sufficiency of Indian industries and absolute dependence on import was more acutely felt. However, the War disrupted the supply from other countries. This, along with other factors operating from different directions led the government of India to review the policy of Laissez Faire. Consequently Industrial Commission (1916-18) and Fiscal Commission (1921) were set up to examine the matter of providing protection to Indian industries. Upon the recommendation of Fiscal Commission, Tariff Board was set up to inquire into this matter in detail and it granted protection to iron and steel industry in 1924. Afterwards other industries such as sugar, coal, cotton textiles, match too were granted protection.

(ii) Low level of productivity

Bengal was one of the leading industrialised Provinces and remained so until the late 1960s. Nevertheless the Province was suffering from low level of productivity compared to other Provinces particularly Bombay. In 1921 and in 1939 Bengal accounted for 35.1% and 28.7 per cent of the total number of the industrial workers in British India respectively as against 25.3 per cent and 23.0 per cent in Bombay during the same period. In 1946 according to the first census of manufacturing industries in India West Bengal (33.62 per cent) continued to lead other States particularly Bombay (33.03 per cent) in terms of its share of total number of industrial workers. However, in 1946 while Bombay was lagging behind Bengal in terms of number of industrial workers it was much ahead of Bengal in terms of value added. Thus total value added in the manufacturing sectors of West Bengal in 1946 was Rs. 57.32 crore as against Rs. 87.66 crore for Bombay. This indicates that industries situated in Bombay were more efficient, more productive and more diversified than in Bengal. The same feature that as noted in the first census of manufacturing industry in India in 1946 continued till 1965 i.e., when West Bengal topped in terms of employment but was lagging behind Mahartstra in terms of value added. (Dasgupta, 1998, pp. 3049-3050)

An interesting feature was noticed in West Bengal as far as productivity of labour of both engineering and non-engineering industries was concerned in 1965. Although the value added per employee in 1965 of all industries taken together in West Bengal was much lower than the all India average and also developed States like Tamil Nadu and Maharastra. The value added per employee in engineering industries in West Bengal was much higher than not only two industrially developed States (Tamil Nadu and Maharastra) but also higher than the all India average during 1965. (BBCI, 1971, p. 94) (see table 9 in Appendix).Therefore, as noticed by BBCI, “The relative superiority of the engineering industry in West Bengal is in striking contrast to the inefficiencies of the State’s non-engineering sector...” (BBCI, 1971, p. 95) But in spite of the formers contribution, value added per employee in all types of industries in West Bengal increased at a lower rate than the country’s average during the period between 1959 and 1965 which were 148.6 per cent for West Bengal as against 150.0 per cent for the all India average. (see table 10 in Appendix)

The relatively higher productivity in the engineering sector of West Bengal, as pointed out by the Survey Committee on the Engineering Industry appointed by the government of West Bengal, seemed to be at the cost of capital productivity. As table 11 (see Appendix) indicates that in 1965 both the capital-output and capital-labour ratios were higher in engineering industries of West Bengal compared to those in Maharastra and Tamil Nadu indicating higher level of capital intensity in the engineering industries of West Bengal. (BBCI, 1971, p. 95). Vaid (1972) also came to the similar conclusion that despite higher capital investment in the State in engineering industries, the industries in general of West Bengal were characterised by lower value added per employee compared to Maharastra. Moreover, the engineering industry of West Bengal seemed to be also suffering from under-utilisation and inefficient use of capital combined with expanding and surplus labour supply while allegedly only about 35 per cent of the employment potential of the engineering industry being utilised. (Vaid, 1972, pp. 149-183)

The study undertaken by Mathur (1987) also revealed that the overall growth rate of productivity and output of the secondary sector of West Bengal during the period of 1951-81 were only 0.80 per cent and 3.18 per cent respectively. As against the all India figures of 1.92 per cent and 4.58 per cent respectively during the same period. (see table 12(a) in Appendix) Mathur (1987) also attempted to measure the contributions of different factors such as labour, technology, structural shift and interaction factors to the growth rate of overall economy in different States of India during the period of 1951-81. In the secondary sector labour contributed 58.2 per cent in West Bengal while structural change, technology and interaction factor contributed only 3.6 per cent, 17.4 per cent and 20.9 per cent respectively during the period of 1951-81. Respective figures for Maharastra were as follows: contribution of labour 25.6 per cent, structural change 8.6 per cent, technological change 23.5 per cent and interaction factor 42.2 per cent. Even though comparative contribution of labour was higher in West Bengal but it must be perceived in the context of the contribution of other factors to the growth of the secondary sector namely structural shift, technology and interaction factors. Clearly, all of them are quite low in West Bengal compared to Maharastra indicating over all stagnancy, inefficiency and lack of dynamism in West Bengal's economy compared to Maharastra. However, as interaction effect is positively related with growth of productivity, structural shift and technology of an economy, it is expected to be quite low in West Bengal compared to the other States on account of negligible contribution of structural shift, technology and productivity[88]to the secondary sector of the State. (see table 12 (b) in Appendix) (Mathur, 1987, p. 178)

The travail continues more or less. A recent study (Ray, 1996) undertaken in this area also reveals similar picture. States' share in India's total industrial output is normally measured in terms of value of output (VO) as well as net value added (NVA). Both of them have consistently been declining over the period from 1976 and 1991 in West Bengal. More importantly, prolonged negative profitability in industries of West Bengal during the period from 1979-80 to 1990-91 is also a reflection of inefficiency and lack of dynamism in the entire industrial sector of West Bengal which is, however, clearly unsustainable.

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[88] It is worthwhile to note in this connection that in West Bengal during the period of 1951-81 over all growth rate of output was 2.53 per cent and growth rate of productivity was only 0.36 per cent. The respective figures for Maharastra were 4.30 per cent and 2.10 per cent. However, the growth rate of productivity of the secondary sector (industrial sector) in West Bengal was only 0.80 per cent and growth rate of output of the secondary sector was 3.18 per cent as against 2.02 per cent and 5.14 per cent for Maharastra and 1.92 per cent and 4.58 per cent for all India average during the same period. Therefore, the growth rate of productivity and output in overall sectors as well as the secondary sector was quite low in West Bengal compared to the all India average including Maharastra. (Mathur, A, "'Why Growth rates Differ' Within India: An Alternative Approach" The Journal of Development Studies, Vol. 23, No. 2, January 1987, p. 169)

During the period under study i.e.,1976-91, it was observed that West Bengal remained less capital intensive compared to India and the gap has widened remarkably during 1980s. Productivity of capital was much higher in West Bengal at the beginning of the period but it declined steadily and drastically during the entire period and has fallen below that of India during the late 1980s. On the other hand labour productivity in West Bengal remained at par with that of India till the early 1980s but has been lagging behind since then. Finally the study concluded that main problem of industrial production in West Bengal is that it is not only characterised by lower capital intensity but also by lower quality of capital manifested in backward technologies. This led to declining productivity of capital and prevented her from catching up with the national average. (Ray, 1996, pp. 248-264)

(iii) Lack of diversification of industries and slow rate of change in industrial structure in West Bengal

Apart from the traditional old export-oriented industries such as jute, tea, coal the advancement in industrial growth in West Bengal was achieved mostly through engineering industries, including basic metal industries. One of the distinctive features of the eastern region as a whole is the predominance of basic metals & alloy industries and lack of growth in chemical based industries. Basic metal industries accounted for about 16 to 22 per cent of the total value of industrial output in West Bengal and Bihar in 1978-79 and during 1983-84 more than 52 per cent of the total value of output in basic metal industries was produced in Bihar and West Bengal. During the same period (1983-84) more than 41 per cent of value of output produced in chemicals and the chemical industry in Maharastra and Gujarat. (Sau, 1990, p. 1020)

Significant changes in the industrial structure of India took place between 1946 and 1978 which is evident from table 13 (see Appendix). The weightage of agro-based industries declined from 66.5 per cent in 1946 to 44 per cent by 1960 and further 28.4 per cent by 1978. The weightage of metal based industries registered a growth from 9.30 per cent to 24.71 per cent between 1946 and 1965. But thereafter it declined to 22.79 per cent by 1978. In contrast, the chemical based industry slowly strengthened its position in the industrial product market between 1946 and 1978 and the weightage increased from 4.92 per cent in 1956 to 15.50 per cent in 1978 i.e., 215 per cent increase as against 145 per cent increase in metal based industries. Besides, the chemical based industries were only marginally affected during the general depression period of 1966-68. (Banerjee,1982, pp. 297-298). Therefore, it was the chemical and chemical product industry which achieved a higher growth rate since the late 1960s. An estimation also indicates that during 1960-84, the chemicals and chemical products industry had achieved more than 500 per cent growth while the growth rate for basic metal industry was only 316 per cent. (Sau, 1992, p. 1023)

As regards the degree of change in the production structure, West Bengal lagged far behind Maharastra which was one of the instrumental factors of profitability for various types of industries located in different regions. The study undertaken by Satia & Cowlagi (1993) indicates that industries overall vary considerably in generating surpluses to service capital. While rubber, food products, non-electrical, electrical machinery and chemicals are capable of generating high surplus, on contrary, electricity and basic metals normally generate the lowest surplus. West Bengal, as mentioned before, is marked by the dominance of basic metal industries while Maharastra made rapid progress in chemical based industries since 1960s.[89] Maharastra's competitive strength originated from the persistent dominance of chemical and chemical products in its industrial profile. In 1982-83 more than 27.3 per cent of its industrial production of Maharastra was accounted for by industries in the star category which were capable of generating more profit than others. Of them chemical and chemical products accounted for 18.3 per cent and electrical machinery including electronics accounted for 5.1 per cent. (Satia & Cowlagi, 1993, p. 175)

Unlike eastern region, western and southern regions as a whole made significant progress in chemical based industries. One obvious outcome of the insignificant growth of chemical industries in the eastern region in general and West Bengal in particular was under-utilisation of the capacity and sluggish growth of traffic in the Calcutta-Haldia port since the early 1970s. Because the pattern of growth of sea-borne trade of India during 1960-80 changed in favour of petroleum oil lubricants, iron ore and fertiliser but against coal on which Calcutta-Haldia port was dependent on. Therefore, absence of any phetrochemical complex in the eastern region including West Bengal accelerated the deterioration in the traffic growth through Calcutta-Haldia port. (see table 14 in Appendix) (Sau, 1990, pp. 1020)

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[89] The share of value added by metal based industries to the total value added in West Bengal was 27.8 per cent in 1960 and increased to 30.4 percent in 1970. For Maharastra the respective figures were 19.7 per cent and 30.0 per cent during the same period. In contrast the share of value added by the chemical based industry to the total value added by Maharastra increased from 16.8 per cent in 1960 to 20.6 per cent in 1965 and further to 27.8 per cent in 1970. On the other hand the share of value added by the chemical based industry to the total value added by West Bengal increased only from 7.5 per cent in 1960 to 11.5 per cent in 1970. (Banerjee, D, ' Industrial Stagnation in Eastern India A Statistical Investigation', EPW, February 20, 1982, p. 298)

In West Bengal basic metal constituted a very significant part which is also evidenced from the fact that in 1965 the largest share of engineering employment was claimed by the basic metal industries (29 per cent), followed by transport equipment (24 per cent), metal products (20 per cent), and non-electrical machinery (18 per cent). In all other States the basic metal industry claimed only 16 per cent of engineering employment and transport equipment occupied the top position by providing 35 per cent of employment. (Vaid, K.N, Gheraos and Labour Unrest in West Bengal, Shri Ram Centre for Industrial Relations and Human Resources, New Delhi,1972, p. 152) *(iv) Lack of diversification of engineering industry and dependence of its existence on government policy made it more recession prone*

Lack of diversification in the overall industrial structure and greater dependence on the Central government's policies for the existence of engineering industries of West Bengal made its economy relatively more recession prone than those of the other regions. The expansion, growth and profitability of the engineering industries (with major share of the basic metal industries) dependent largely on the Central government's demand for engineering products and also on different policies pursued by the Centre. One estimation shows that only 16 per cent of the output of engineering industry of this State went for household consumption and 10 per cent consumed directly by the Central government and another 45 per cent directly contributed to gross capital formation. Such capital formation constituted raw materials for other industries either as raw material input or as machinery and was also regulated by the Central government through quotas, allocations, and pricing system. Therefore, apart from being a direct consumer and regulator of import (since 27 percent output of the engineering industries is dependent on imports) government of India also controlled the consumption of the engineering outputs as demanded by other industries. Evidently, any reduction in the Central government's order or change in its allocation policy could directly affect the profitability of engineering industries and it did have serious impact on the engineering industries of the State. Hence making these industries more susceptible to changes in the tempo of economic activities than the consumption oriented industries. (Vaid, 1972) Over time unlike in other States the engineering sector in West Bengal failed to capture the consumer goods industries on a large scale (Raycahudhuri & Chatterjee, 1998, p. 3063). Therefore, such dependence on government's policy coupled with lack of expansion of the consumer based industries made the State's industrial structure more recession-prone than that of the other States.

(*Iv) Lack of dispersal of industries and consequent intra-State disparities in West Bengal*

Industrial concentration in the Calcutta Metropolitan District (CMD) is amongst the heaviest in the world leaving all other districts of West Bengal industrially underdeveloped and has resulted in severe intra-State inequity. Engineering industries began to grow around Calcutta during the Second World War. By 1965 almost entire manufacturing industry of West Bengal was concentrated in the CMD area. (four districts of West Bengal namely Howrah, Hoogly, 24-Paraganas and Calcutta forms the CMD area) Almost the entire jute, cotton textile, chemicals, rubber, food processing and miscellaneous light industries are concentrated in the CMD area. Such heavy concentration of industries coupled with vast economically underdeveloped area of the State caused continuous large scale migration to the CMD[90] area and consequently made the situation unbearable.

[90] However, according to an estimation the CMD area comprised only 1.3 per cent of the total area of West Bengal but held 19 per cent of the State's population, 50 per cent of its total industrial work force and 84 per cent of her total registered factory work force. The

Indeed, this high degree of intra-State regional imbalance is unprecedented and does not exist in any other State of the Indian union. Wide inter-district disparity in the location of large scale industries is also mention worthy. Out of the 5,658 registered factories in West Bengal in 1967, 4866 factories or 86 per cent of total were located in the five districts of the State such as Calcutta, 24 Paraganas, Howrah, Hoogly and Bardwaman. By contrast 11 least developed districts out of total sixteen districts of the State accounted for only 792 factories i.e., only 14 per cent of the total. Among them Calcutta and 24 Paragana alone accounted for 58.31 per cent of the total registered factories in 1967. (see table 15 in Appendix). (BBCI, 1971, p. 47)

Table 16 (see Appendix) indicates inter-district disparities in the distribution of employment in the registered factories in West Bengal between 1951 and 1966. It will be seen from table 16 that the share of the 11 backward districts in the State's registered factory employment was only 7.4 per cent in 1951 as against 57.2 percent of only two districts i.e., Calcutta and 24 Paraganas. In 1961 also the share of the 11 backward districts in the State's registered factory employment continued to be as low as 9.0 per cent as against 52.9 per cent for the two above mentioned most industrially developed districts.[91] (BBCI, 1971, p.47) Recent study undertaken by Bhattacharya (1998) has also observed that degree of intra-regional inequality in West Bengal during the last two decades has been continuously much higher than the all India level of regional disparity.

Infrastructural bottleneck

The major institutional problem faced by West Bengal's industries appears to be technological backwardness and lack of initiative to modernise machinery. Later studies (Indian Chamber of Commerce (ICC), 1983; Ray, 1996) also pointed out such technological deficiencies faced by the

concentration of industrial employment in the CMD area was remarkably problematic. There were 740 industrial workers per square kilometre in the CMD. And per capita income generated in the CMD area was Rs. 811 against the national average of Rs. 334 in 1965. (Vaid ,K.N Gheraos and labour Unrest in West Bengal, Shri Ram Centre for Industrial Relations and Human Resources, New Delhi, 1972, pp. 148-149)

[91] In terms of inter-district inequity in the distribution of factory employment it is also observed by Vaid (1972) that the five North Bengal districts including the tea plantation districts of Darjeeling and Jalpaiguri with 16 per cent of the population of the State had only 3.42 per cent share of the total employment in the registered factories of the State. Therefore, apart from the few most industrially developed districts of the State the remaining backward districts i.e., Murshidabad, Nadia, Birbhum, Purulia, Bankura and Midnapur were industrially backward with insufficient and poor infrastructure facilities. In 1965, these districts together accounted for only 3.96 per cent of the total registered factory employment of the State. The obvious outcome of this phenomenon was acute unemployment in most parts of the State and an administratively unmanageable situation in the CMD area. (Vaid ,K.N, Gheraos and labour Unrest in West Bengal, Shri Ram Centre for Industrial Relations and Human Resources, New Delhi, 1972, pp. 148-149)

industries of West Bengal and will be discussed later on. The condition of the plant and machinery in many lines of the engineering products, cotton textiles and some other industries, as BBCI (1975) observed, in West Bengal were antiquated compared to the modernised and up-to-date industrial complexes in other parts of India particularly in the western region. Quite evidently the cost of production in certain industries in West Bengal was much higher and some of West Bengal's engineering products had been priced out due to higher production cost despite enjoying the benefit of low labour costs. (BBCI, 1975, p. 25)

Power occupies the key position in the infrastructural sector. Since the later part of the Third Plan (1961-66) Indian economy, as we have discussed earlier, entered a phase of economic crisis. Consequently major areas of infrastructural development in the eastern region were stalled due to inadequate resources from the Centre. It was observed by the West Bengal government "since the Third Plan period due importance was not given to the need for installation of new power stations to cope with the growing demand in the Eastern Region including West Bengal".(Economic Review (1973-74), Government of West Bengal, Quoted in BBCI, 1975, p. 36)

Power shortages was considered to be one of the major handicaps faced by West Bengal's industries during the first three decades after Independence. The chronic and intractable power crisis in West Bengal arose from the extremely inadequate development of the generating capacity in the State. In the subsequent decades the State did not seem to overcome this problem of low capacity of generation of power. We will take up this issue in a later part of the study along with other major infrastructural problem faced by the State. According to data submitted by the Burman Commission (set up by the State government to investigate the causes of power shortage of the State covering the period between 1951 and 1971) the power generation capacity in West Bengal increased only 122 percent as against 1172 per cent in Tamil Nadu, 1075 per cent in Punjab, 525 per cent in Maharastra and 539 per cent in Gujarat between 1951 and 1971. (BBCI, 1975, p. 36) It would be worthwhile to note that for the eastern region as a whole the growth rate of the installed capacity during 1951 to 1980 was only 724 per cent as against 1407 per cent for the whole of all India. (see table 7 in Appendix)

However, although West Bengal occupied the third position in terms of per-capita power consumption among the Indian States but electrification in the villages of West Bengal was much lower than other States. The resultant shortage of power supply in the villages had been a major hurdle in the path of agricultural improvement through irrigation and the development of agro-based industries. (BBCI, 1971, p.41) West Bengal government while submitting the memorandum before the Fifth Finance Commission also mentioned the problem of low generation capacity of power of West Bengal and of lower number of villages in the States being electrified compared to other States. The rate of growth of the installed capacity of the power generation of the State was only 121.1 per cent as against 458.4 per cent of all India average during 1951 to 1966-67. Furthermore, until March 1967, 1,355 villages of the State were electrified compared to 5,970 villages in

Maharastra, 4,472 villages in Andhra Pradesh. (see table 17 in Appendix) Another estimation shows that as on 31st March 1974, there were only 7,500 electrified villages in West Bengal as against 28,390 in Uttar Pradesh, 16,000 in Maharastra, 14,124 in Tamil Nadu 10,750 in Andhra Pradesh and 9,600 in Bihar. (BBCI, 1975, p. 41)

Another major infrastructural lag in this State was the relative deficiency of roadways. However, huge emphasis on transport and communication was placed during the First Plan outlay in West Bengal. But since the Second Plan and more conspicuously since the Third Plan the percentage of Plan expenditure on transport and communication in the State started declining drastically. Total kilometre of road ways in West Bengal was only 11,168 as against 35,233 in Madhya Pradesh, 29,791 in Karnataka, 24,061 in Uttar Pradesh, 22,02 in Andhra Pradesh, 21,943 in Rajastrajhan, 20,068 in Tamilnadu, 14, 282 in Maharastra and 12,623 in Kerala. In terms of railway route West Bengal also lagged behind other States i.e., the total railway kilometerage in West Bengal as on 31st March 1972 was 3,696 as against 8,632 in Uttar Pradesh and over a 5,000 each in Bihar Gujarat, Madhya Pradesh, Maharastra and Rajasthan. (BBCI, 1975, p. 41)

Agricultural bottleneck

Of all structural constraints operating on West Bengal's economy agricultural bottleneck was one of the most important one. It seems that the legacy of Permanent Settlement was quite strong in its retarding impact on agricultural growth in West Bengal in the first four decades after Independence. The State Planning Board commented that "one of the important reasons for the crisis in industry in West Bengal lies in the backwardness of our agriculture. Contrariwise, backwardness of our agriculture is due to the nature of industrial complex we have inherited and the particular type of socio-economic institutional set up associated with it." (West Bengal's Approach to the Fifth Five Year Plan (1974-79), 1972 pp.9; quoted in Munsi, 1975, p.44)

West Bengal along with the eastern region as a whole was left far behind the other States as far agricultural growth was concerned as we have seen in the preceding part of our study. During 1952 to 1979 annual exponential growth rate of agricultural production was only 1.85 per cent as against 2.35 per cent for all India during the same period. (Sau, 1990, p. 1023) (see Table 14 in Appendix) Reason for this poor performance of West Bengal's agriculture may be traced in infrastructural and institutional deficiencies. Of them lack of facilities for irrigation and low availability of agricultural credit were most important. At the end of the Fourth Five year Plan (1969-74) West Bengal stood close to the bottom among the major States of India in developing major and medium irrigation schemes. (BBCI, 1975, p.18) Measured against minor irrigation schemes, West Bengal's position was also quite low compared to the other States. (BBCI, 1975, pp. 18-19) However, major thrust was given on restructuring the agrarian policy and institutional change in rural economy in the State soon after the Left Front government came to power in 1977. Consequently, West Bengal registered higher agricultural growth and started catching up with the rest of India during the last two decades.

Institutional factors

(i) Economic crisis in mid-1960s

Many of the disadvantages which were already dampening the growth of industries in West Bengal including the eastern region were accentuated by two major incidents during the mid-1960s. One was the Indo-Pak war of 1965 and the other was harvest failure in the country in two consecutive years 1965 and 1966 leading to acute industrial recession. Public sector investment by the Centre declined significantly and investment on expansion of capacity in the basic and the heavy industrial sector was almost stopped in the eastern region due to scarcity of resources. During 1966 and 1967 country's industrial production declined rapidly and the recession in industry assumed national character. But its impact on the industries of West Bengal was much worse than in many other States. The index of industrial production came down from 106.6 in 1964 to 94.2 in 1970 as against the all India figures of 108.6 in 1964 to 139.3. (Bose, 1975, p. 165) (see table 18 in Appendix). However, the industrial recession of the mid-1960s did not affect all the industries uniformly. The major industries affected were food processing, textiles and engineering goods. Therefore, the impact of this recession on West Bengal industries was not only most severe but also long standing on account of the lack of diversification in the industrial structure of State with predominance of engineering industries run by the public sector enterprises which were also heavily dependent on Central government's orders. As we have earlier mentioned that unlike consumer goods industries, one of the important features of the heavy capital based basic engineering industries along with other major industries of the State most of which get exported, is their absolute dependence on government's demand and policies.[92]

Significant decline in railway orders by the Central government since the mid-1960s resulted in recession in the railway equipment industry hence in the wagon building firms in West Bengal. Drastic fall in wagon production in the State nearly wiped out a number of major industrial units in the State. Some important engineering industries in the State which flourished before the onset of the recession could not cope with the crisis and turned sick. Consequently they had to be taken over by the government. The sickness of these big firms also badly affected the ancillary units located in Howrah on account of lack of orders from them who used to supply inputs to these giant industries. Actually within a few years whole structure of the

[92] In this connection we can quote the West Bengal government. "The growth of large scale industry in the State is dependent to a large extent on factors which are beyond the control of the State Government. Industries like tea and jute, the two most important industries in the State are influenced by the export market. The other major industries in the State, like engineering, cotton textile and coal are either dependent on the demand generated by the Central Government agencies, as in the case of wagons or are influenced by Central Government's industrial policy, as is the case for cotton textile industry. And finally industries like coal are under the direct control of the Central Government. " (Economic Review, Government of West Bengal, 1986-87, p. 28)

engineering industry in the State was nearly destroyed. (Dasgupta, 1998, p. 3050)

(ii) Plan outlay and low level of Central allocation

Low level of Plan outlay and hence Plan expenditure accentuated the industrial recession in West Bengal during the late 1960s and the early 1970s. The size of the Fourth Plan (1969-74) amounted only to Rs. 323 crores and barely exceeded that of the Third Five Year Plan (1961-66) which accounted for Rs. 305 crores. Expenditures during the Fourth Plan compared to the Third Plan under the following heads namely industry & mining, transport & communication declined by Rs. 21 crores. This especially harmed the structural groups of the industry in West Bengal. Although the expenditures in the Fourth Plan for the State under irrigation and power registered an increase of Rs. 18 crores over the Third Plan at 1970s prices. However, in real terms the increase was far less. No other State in India experienced such cut back in the Plan expenditure during the Fourth Plan. Evidently, such meagre allocations in the Fourth Five Year Plan made it more difficult to maintain the level of production in the engineering industry of the State. (Bose, 1975, pp. 166-167) (see table 19 in Appendix).

(iii) Lack of financial assistance given by the Centrally controlled financial institutions.

Inadequate financial assistance particularly since the mid-1960s compared to other States in the forms of loans, underwriting, guarantees, etc. by the government sponsored financial institutions also had greater retarding effect on West Bengal's industrial base compared to other States. We would like to turn on to this area in the subsequent part of this study. It would be worthwhile to note in this connection that several studies (Gulati & George, 1985; Shulka & Roy Chowdhury, 1992; Mathur, 1994) observed that of all resource transfers from the Centre to the States, financial assistance disbursed by the Centrally controlled financial institutions and scheduled commercial banks has been showing most regressive trend. That apart, there is a strong positive association between level of development of a State and financial assistance disbursed. Because financial institutions by and large are guided by optimal return on their resources and they are not expected to adopt the egalitarian norms which Finance Commission and Planning Commission did in an attempt to redress regional imbalance. (Mathur, 1994, p. 226)

(4) Problem of entrepreneurship

Absence of regionally committed class in West Bengal

Absence of regional investors with close ties with the State government is one of the most important handicaps of the West Bengal's economy. The reason might be traced as far back as the pre-Independence period. However, Permanent Settlement in Bengal encouraged investment in land rather than in commerce and industry. For several reasons the return from land was much higher and was considered safer field than any risky venture such as industry and commerce. Therefore, *Zemindars* became more inclined towards investment in land and finding employment in the civil services. (Vaid, 1972, p. 179) Thus, “this was a middle class connected, not with industry or even with large-scale trade and commerce but with the liberal professions and landholding”.(Sarkar, 1987, p. 7) However, It was often alleged that Bengalis had real apathy for setting up business and the Bengali people lacked enterprising quality which was the main reason for their misery and poverty. But such allegation was opposed by some scholars (Awwal, 1982; Srkar, 1987) and also seems to be inadequate in explaining the lack of business motive of the Bengalis. Other structural factors prevailing from the past days also need to be considered.

Lack of technical knowledge and lack of sufficient demand for industrial products were some of the determining factors which caused low level of participation of Bengal’s people in industry, trade and commerce. Natives in general lacked technical knowledge in the British India. In Bengal the opportunities for industrial and technical education was very limited. At the advanced level as late as in 1939, there existed only two engineering colleges in Bengal. (Awwal, 1982, p. 136) However, limited market for industrial products due to low level of purchasing power of the vast rural people on account of the Permanent Settlement in land in Bengal was also one of the main important inhibiting factors responsible for low level of initiative in setting up small industries by the Bengal entrepreneurs. In addition to this the policy of free trade pursued by the government of India till 1923 made it difficult for native entrepreneurs in general to penetrate and capture market. (Awwal, 1982, p. 139)

Almost all major industries situated in Bengal i.e., jute, tea plantation and partly coal were export based and mainly dominated by the Europeans. The reasons for this is not difficult to seek. Europeans naturally had better understanding about the fluctuations of world market and the pulse of world economy. It was difficult to penetrate into this area for Indian in general and Bengalis in particular for they had neither technical knowledge nor better familiarity with world market. Similar trend was visible in the engineering industries of Bengal. Till the beginning of the World War I, the flow of entrepreneurs into this industry was extremely limited. By 1937 most of the engineering firms operating in Bengal belonged to British owners. The reason behind this is obvious. The Europeans naturally possessed the required technical knowledge, and the advantage of securing better marketing facilities (due to British domination in large purchasing bodies like railways). In addition to that, in a colonial set up, they enjoyed patronisation by the British government and the British owned financial institutions. (Bagchi, 1972; Awwal, 1982) Therefore, “Its (Bengali entrepreneur’s) failure to develop into a bourgeoisie proper was caused not so much by faulty values or unsound business instincts, as by the early and massive hold established on the higher reaches of modern commerce and industry by European firms backed by a foreign government” (Sarkar, 1987, p. 7)

Furthermore, there was no department of industry till 1920 under the government of Bengal. The Bengal government established its permanent department for industries in 1920 along with an Advisory Board of Industries to advice the Director on important aspects of industrial development. Industrial department from the very onset had suffered from financial crisis and had to cut short its projects. This crisis was further intensified when the adverse effect of Meston Award (1921) on Bengal's finance became apparent since the mid-1920s. Acute financial stringency restricted Bengal government's spending on the nation-building activities of which industrial development was one. Five gazetted officers out of ten in the Industrial Department had to be retrenched in the face of such acute financial crisis. (Awwal, 1982, pp. 17-37)

Dominance of Marwari Enterprises

Bengali entrepreneurship emerged during the Swadeshi period soaked in patriotic zeal and played an important role between 1833 and 1905 but started gradually deteriorating by the 1920s. The void started being filled by the Marwaris who replaced Bengali entrepreneurs and started establishing themselves in Bengal by the end of 19th century. Marwaris had natural inclination for trade and the tradition of whom was more receptive to trade and commerce and whose wealth in fact depended on new business ventures (Franda,1971, p.23). Furthermore, by the 1920s Bengal and particularly Calcutta had become the centre of political agitation, and the British commercial ruling classes began replacing their Bengali employees by Rajasthanis/Marwaris as far as they could. (Ghosh, 1971, p. 24) The Rajasthanis who started their activities mainly in jute industry as traders gradually extended their activities to the whole economy of Bengal.[93] Consequently in Bengal "The second rung in the business hierarchy came to be occupied in the twentieth century by Marwari and other non-Bengali businessmen, drawing upon established, all India connections." Contrary to that "the decade (1920s) also saw the decline of Bengali entrepreneurship in the coal industry in the face of European and Marwari competition and the discriminatory treatment by British controlled railways and banks." (Sarkar, 1987, pp. 7-8)

Overtime, Marwaris have been almost in exclusive control of the private-sector industries in the State. From then on, Bengal's merchant class was constituted by non-Bengali migrants, mostly Marwaris. (Chatterji,1985, p.4)

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[93]Vaid (1972) observed that Marwaris came to Bengal during the last quarter of the nineteenth century and were engaged mainly as traders, commission agents, and contractors to the British trading houses. They, however, lacked the technical knowledge of modern business organisation and did not have any intention to compete with their British principals. Owing to that they did not launch any company till the beginning of the 20th century except for one cotton textile mill. Apart from having shares in jute mills, they mainly confined their business activities to trading and doing contract jobs for the British firms. After Independence they systematically purchased many British companies and the foreign monopoly in jute, tea, coal, shipping exports etc. which was passed onto the Marwari hands. (Vaid, K.N, Gheraos and Labour Unrest in West Bengal, Shri Ram Centre for Industrial Relations and Human Resources, New Delhi, 1972, p. 170)

It has been estimated by the Government of West Bengal in 1969 that out of the total approved investment of Rs. 290 crore in West Bengal between 1959 and 1966 only 4.83 per cent came from Bengali entrepreneurs. On the other hand, the share of Marwari entrepreneurs accounted for 45.52 per cent. Other Indians and domiciled foreigners accounted for 18.96 per cent and 2.76 per cent respectively.(Memorandum to the Fifth Finance Commission, West Bengal Government, 1969, p.23)

Bengal Chamber of Commerce and Industry (1975) also felt that lack of local entrepreneurship was one of the most important reasons for industrial backwardness of West Bengal. (BBCI, 1975, p.15) However, one could hardly fail to notice the fact that while there has been a distinct trend of emergence of the regional capitalists in western India, it was absent in eastern India. “Since the inception of modern factory based industry in the mid-nineteenth century a regional clustering of industries had occurred. The ownership of manufacturing industries in different regions also conformed to a pattern. In fact at the time of Independence a regional capitalist class had developed to an extent in western India only.” (Banerjee,1995, p.3) The Report of the Industrial Planning and Licensing Policy (Planning Commission, 1967) observed that there was strong regional bias in the investment pattern of the big business houses in the 1960s except in plantation and extractive industries. Therefore, as Banerjee (1998) observed while there was a clear trend of regional concentration of investments by the respective regional capitalists, in West Bengal, by contrast, Marwari business houses tend to reinvest their capital accumulated from the State elsewhere in India. (Banerjee, 1998, p. 3074)

Pre-dominance of foreign capital, public sector & Marwari entrepreneurship in West Bengal

Foreign companies, Marwari enterprise, and the public sectors, together owned most of the industries in West Bengal. Coal mining, jute manufacturing and tea plantations that were built up by the British remained in their exclusive preserve until Independence and began to pass onto Indian hands only after Independence. Nevertheless until late 1960s, Britain still provided over 65 per cent of the total foreign private investment in India, nearly half of it in traditional industries of West Bengal. Out of 85 jute mills in Calcutta 37 mills functioned with British collaboration till late 1960s. Coal mining and tea plantations though mostly passed onto Indian hands but some control was still enjoyed by British entrepreneurs till late 1960s. (Vaid, 1972, p. 159) As a consequence even in the 1970s the Bengal Chamber of Commerce was almost completely staffed by Scotsmen in the higher ranks of its administration. (Rothermund, 2004, forthcoming) A country wise break up of the foreign collaboration in India for the year 1963-64 indicated that United kingdom alone owned 165 firms in India out of the total 369. Most of the British investments and subsidies went finally to eastern India, particularly West Bengal. Number of foreign collaborations as by the late 1960s in West Bengal was 369 which was next to only Maharsatra (756) as against total of 1,710. (Vaid, 1972, pp. 168-169)

Apart from dominance of foreign owned firms West Bengal is also marked by the dominance of public sector. On the whole public sector and government run undertakings together constitute a significant portion of the total capital invested and employment in industry of West Bengal resulting in over laboraisation and negative profitability for considerably longer period. However, public sector undertakings generally operate under the social motive of employment generation and both by virtue of nature of industrial structure and its acknowledged weak management practices they have to bear high overhead emoluments for each employee and as a result fail to generate profit. (Gangopadhyay, 1996, p. 269)

An estimation indicates that emoluments per employee in public sector in 1986-87 was about 40 per cent higher than that in private sectors. Furthermore, public sector is marked by higher level of productive capital per employee than the private sectors i.e., the productive capital per employee was nearly three and half times higher than that of private sectors. High capital intensity in public sectors, however, does not necessarily lead to higher profitability. Public sectors generated only Rs. 0.07 to serve a rupee of productive capital as against Rs. 0.27 in private sectors during the same period. (Satia & Cowlagi, 1993, p. 170)

In nutshell it can be concluded that Marwari enterprises, public sectors and foreign companies, together owned most of the industries in West Bengal. All three groups are mainly outsiders and they do not seem to take any interest in social, political and general development of the States beyond their business interests. Furthermore, dominance of Marwari enterprises is said to have some direct negative impact on the State's well being. While in the federal structure of India, regional capitalists play greater role in attracting share of public investments by influencing government policies. Marwaris located in West Bengal neither can be the true representative of the State nor they have any organic attachment to the State.[94]

Dominance of foreign companies or big business houses on the other hand posed problems in obtaining industrial licenses for substantial expansion of existing units or setting up new units for big business houses particularly during the era of inward looking strategy followed in India until the inception of New Economic Policy,1991. As a part of inward looking strategy growth of foreign investment, expansion of large business houses were restricted under the Monopoly Restrictions Trade and Practices Act (MRTP), 1970 and Foreign Exchange Regulation Act (FERA) (Year). In addition to that

[94] In this context we may aptly recall one comment made by Banerjee (1995) could be relevant. "The Marwari capitalists who replaced the British had neither the legitimacy nor the hegemonic position to be the representative of the region. They could neither identify with nor project the aspirations of the region before the central government.....In contrast, the emergence of an integrated and indigenous capitalist class in western India has provided a boost to the development process of the region. Their hegemonic presence has enabled the region to articulate its aspirations before the Union Government. As a result, within the federal structure it has attracted more public resources for its development." (Banerjee, D, industrialisation Programme in West Bengal: Policy and the Problems-Some Lessons from Newly Industrialising Countries in Asia, Occasional Paper 149, Centre for Studies in Social Sciences, Calcutta, June, 1995 p.3)

export based industries mostly situated in West Bengal suffered from lack of incentives and the absence of any definite export promotion policy during the pre-reform period. This area will be dealt with in detail in the later part of this study. Lastly, dominance of public enterprises in West Bengal on the whole resulted in an enclave type industrial development and not only failed to have any spread effect but also by generating least surpluses had further negative impact on the industrial scenario of the State.

Policy variables

Freight Equalisation Policy

Freight equalisation policy was introduced in 1956. The Centre equalised the railway freights of iron, steel and coal all over the country. This said to have robbed away the comparative regional advantage of the mineral-rich eastern region. But the freight equalisation policy was not introduced for raw materials like cotton and oilseed. West Bengal had a sizeable cotton textile industry and host of industries based on oilseeds. Most of these raw materials had to be imported from other regions. The cotton mill owners of the State raised their voice against this Policy and complained that cotton mills in this State turned sick as heavy freight has to be paid for raw material to be bought from Gujarat and Maharastra.[95] (Nag,1988, p. 52) Therefore, the net result of this selective introduction of freight equalisation was that the principal advantages of the eastern region have been taken away including West Bengal's without giving anything in return. Ray and Sato (1987) are of the opinion that due to this selective freight equalisation policy West Bengal's industries were compelled to sacrifice their interest for ensuring the prosperity of industries in the western region, notably Maharastra. Later on the Central government appointed two committees, the Marathe Committee and Pande Committee to examine this matter. These Committees recommended phase out of the policy of selective freight equalisation and telescopic rate. In practice the recommendation has not been carried out. (Ray & Sato, 1987, p. 132) However freight equalisation policy was abolished in January 1992 as a part of the New Economic Policy.

Import substitution policy

Another feature which affected the export-oriented industries in West Bengal was the doctrine of import substitution policy followed by India as part of the self-sufficient, heavy industry based, inward looking model pursued after Independence. No major incentive was offered to the export based industries until much later. In fact there were times when jute industry had to pay an export tax. In contrast domestic industries catering to the

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[95] However, Mr. S.N. Hada, President of the Bengal Mill Owners Association said " ...whereas the mills in Ahmedabad and Bombay were given freight concession on movement of raw cotton, the mills in the eastern region were not. Whatever concessions were enjoyed by the mills in West Bengal, Assam and Orissa till 1971 were withdrawn that year and railway freight charges went up by 50 per cent. As a result about 18 mills in West Bengal became sick and had to be taken over by the Government." (Quoted in West Bengal The Travail Continues, The Bengal Chamber of Commerce and Industry, Calcutta, 1975, p. 26)

internal market were patronised and were protected by different tariffs and quantitative restrictions. Surplus capital generated in mainly the export-oriented industries was thus siphoned off for the benefit of domestic industries during the pre-economic reform in India following the doctrine of import substitution policy as against export promotion. (Bagchi, 1998, p.2976) It was observed by Banerjee (1998) that import substitution policy was not complete substantially before the beginning of 1960s. Therefore, until the early 1960s export sector of West Bengal managed to expand. (Banerjee, 1998, p.3068) But afterwards West Bengal's export oriented industries became a victim of import substitution policy while not export promotion.

Conclusion

In sum it can be said that deep-seated structural constraints tended to render the industries situated in the State more recession prone, less dynamic having low potential for further expansion. Intra-State imbalance and over-concentration of industries in small areas of the State while leaving vast areas virtually under-exploited and under-utilised led to severe infrastructural problem from which the State is yet to recover. Among other important infrastructural bottlenecks low growth rate of agriculture until the early 1980s in the State posed considerable problem for industrial expansion too. Narrow based industrial structure of the State with lack of diversification of industrial products are either made the industries of the State dependent on export market (Jute and tea) or on the Central government's orders and policies (engineering industries and coal). That however, made these industries severely recession prone. Such lack of adaptability and rigidity in the industrial structure of West Bengal prevented the State from making change in the production pattern and the State was left far behind by other industrially developed States who managed to change their production structure in favour of consumer based industries over the past decades.

Therefore, prolonged industrial stagnation, lack of dynamism and negative profitability made increasing number of industries sick in the State which made it difficult to attract adequate fresh investment in this region. Thus low economic potential, low economic activities resulted in low demand for bank credit and hence low disbursement along with low level financial assistance by the Centrally controlled financial institutions, all had dampening effect on the industrial scenario of the State. Moreover, in a federal structure like India regional capitalists have always played an important role in attracting major share of private as well as of public investment by influencing the Central government's policies. West Bengal compared to other States lacked such a regionally committed industrial class. And neither the State had any considerable influence on the Centre for attracting public investment nor the capacity of diverting private capital through the industrial licensing system.

Having analysed the problem of the State belonging to eastern region and State specific structural problem which inhibited West Bengal from being favoured in the existing federal structure, we will like to turn on to the area of the problem generally the State faced on account of belonging to the Indian federation and also to the middle and poor income category. Now it remains to be seen how far such complaint against two multiple resource transfer institutions namely the Finance Commission and the Planning Commission and Centrally controlled financial institutions are valid in terms of State specific discrimination particularly directed against West Bengal. And how far such discrimination is a part of the regressive structure of the federal fiscal relations in India which has so far failed to minimise regional imbalance. As a matter of fact such resource transfer favoured the richer States more than the poorer States. It remains to be seen whether being a middle income State, West Bengal has been part of this regional discrimination or it has been subject to State-specific politically motivated discrimination on account of the political and ideological differences of the ruling party of the State in the post Left Front era from the ruling parties in the Centre. That will be discussed in the chapter 4 of this study.

Appendix

Table: 1

Public Finance of Different Regions in India Between 1980-81 and 1990-91

Region	Percentage share of total own tax revenue in 1989-90	Expenditure on revenue account *	Expenditure on capital account**	Surplus and deficit as percentage of aggregate receipts of respective year		Percentage share of total debt in 1989-90***
				1980-81	1990-91	
Eastern	15.2	18.1	7.4	-4.8	-1.4	24.4
Western & Central	31.9	16.8	10.4	-3.3	-0.2	23.6
Northern	22.1	19.2	11.7	2.7	-0.3	32.0
Southern	30.8	16.5	8.9	-2.1	-0.3	20.0
All India	100	17.6	9.7	-1.8	-0.5	100.0

Source: Eastern India the Complete Data Base, Bengal Chamber of Commerce & Industry, 1993

*** Percentage annual growth over 1980-81 to 1990-91**
**** percentage annul growth over 1980-81 to 1990-91**
***** Total debt of the States consists of Central loan, market loans & bonds, advances from RBI, loans from banks & institutions, loans from Provident Fund, loans from Reserve Fund deposit**

Table: 2

Regions	Percentage share of total investment in State public sector undertaking in 1990	Percentage share of total investment in co-operative institutions in 1989-90	Percentage share of expenditure on research and development by the State governments	
			1980-81	1990-91
Eastern	20.82	21.63	16.1	10.53
Western and Central	15.77	27.29	31.8	39.55
Northern	34.57	23.13	24.9	27.27
Southern	28.84	27.95	27.2	22.65
All India	100.00	100.00	100.00	100.00

Source: Eastern India the Complete Data Base, Bengal Chamber of Commerce & Industry, 1993

Table: 3

Bank Facilities in Different Regions in India

Regions	Total number of bank offices		Bank offices per lakh of population	Percentage of advances to total deposits by scheduled commercial banks		Percentage all India share of disbursements of loans by term lending institutions*	
	1969	1992	1992	1969	1992	1980-81	1990-91
Eastern	970	13,070	5.9	86.8	49,9	13.2	8.4
Western & Central	2,314	13,655	7.3	81.5	60.2	36.8	45.0
Northern	2,021	17,750	7.2	53.9	54.6	21.2	20.2
Southern	3,016	16,205	8.1	99.8	80.2	28.8	26.4
All India	8,321	60,680	7.0	77,9	61.0	100.00	100.00

Source: Eastern India the Complete Data Base, Bengal Chamber of Commerce & Industry, 1993

***Industrial Development Bank of India (IDBI) Industrial IFCI, ICCI**

Table: 4

Labour & Productivity of Different Regions in India

Region	Value added per person employed in the manufacturing sector (Rs.)			Value of output per person employed in the Manufacturing sector (Rs.)			Fixed capital per person employed in the manufacturing sector (Rs.)		
	1948-49	1968-69	1987-88	1948-49	1968-69	1987-88	1948-49	1968-69	1987-88
Eastern	1499	5854	37920	5,799	26,130	169, 749	1,319	23,038	110,771
Western & Central	2,365	8,468	47,056	5,819	37,174	253,016	981	21,435	118,182
Northern	1,795	6,863	31,885	5,942	31,858	193,545	1,163	27,905	108,324
Southern	1,514	6,704	28,066	5,717	28,070	161,576	1,060	22,059	71,127
All India	1,859	7,027	36,320	5,808	31,032	197,376	1,146	23,034	100,894

Source: Eastern India the Complete Data Base, Bengal Chamber of Commerce & Industry, 1993

Table: 5

Percentage of Total Licenses Issued in Different Regions Between 1965 and1990

Region	1965*	1973**	1987	1990

Eastern	**25.4**	**9.8**	**10.38**	**9.04**
Western & Central	**35.9**	**44.3**	**38.66**	**37.21**
Northern	**16.8**	**21.1**	**22.46**	**25.33**
Southern	**21.9**	**24.8**	**28.50**	**28.42**
All India	**100.00**	**100,00**	**100.00**	**100.00**

Source: Eastern India the Complete Data Base, Bengal Chamber of Commerce & Industry, 1993

*, **For 1965 & 1973 see: West Bengal- The Travail Continues, The Bengal Chamber of Commerce & Industry, 1975, pp. 81

Table: 6
Relative Economic Growth Propensity and Income of the Eastern Region From the Manufacturing Sector Between 1968-69 and 1978-79

Year	Relative Economic Growth Propensity of the Eastern Region (Per cent)	Income of the Eastern Region From the Manufacturing Sector (Index)
1968-69	28.9	100
1969-70	18.4	--
1970-71	18.0	86
1971-72	18.1	86
1972-73	18.3	89
1973-74	17.7	91
1974-75	17.9	91
1975-76	17.5	92
1976-77	17.4	105
1977-78	17.4	108
1978-79	16.5	110
1979-80	16.4	109
1980-81	17.3	115
1981-82	16.6	123
1982-83	15.9	127
1983-84	14.6	132
1984-85	14.2	131

Source: Sau, S.N, , Economics of Calcutta-Haldia Port Complex‘, EPW, May 5-12, 1990, p. 1021

Table: 7
Installed Capacity of Power of Eastern Region Vis-a-Vis Other Regions of India Between 1951 and 1980
(per cent)

Region	Capacity Installed (MW)				Increase from 1951 to 1980 (Per cent)
	1951	1961	1973	1980	
Eastern Region	34.5	26.8	22.4	16.3	724
Southern Region	20.4	19.6	25.0	29.9	2234
Northern Region	24.3	29.4	24.9	27.7	1734
Western Region	20.8	24.2	27.7	26.1	1900
Total	100.00	100.00	100.00	100.00	1407

Source: Sau, S.N, , Economics of Calcutta-Haldia Port Complex‘, EPW, May 5-12, 1990, p. 1023

Table: 8

Annual Exponential Growth Rates of Agricultural Production and Yield Per Hectare in Indian States 1952-79

State and Region		Annual Exponential Growth Rate	
		Production	Yield Per Hectare
Eastern Region	Bihar	1.67	1.13
	Orissa	1.40	0.14
	West Bengal	1.85	0.89
Western Region	Maharastra	1.83	1.53
	Gujarat	2.83	2.73
	Madhya Pradesh	1.09	0.36
	Rajasthan	2.24	1.27
	Punjab	4.28	3.10
	Uttar Pradesh	1.96	1.55
Southern Region	Tamil Nadu	2.13	1.89
	Karnataka	2.38	2.32
	Kerala	2.36	1.54
	Andhra Pradesh	1.84	1.71
All India		2.35	1.72

Source: Sau, S.N, , Economics of Calcutta-Haldia Port Complex', EPW, May 5-12, 1990, p. 1023

Table: 9
Value Added Per Employee in Manufacturing Sector (Census Sector) in 1965 (In Rs.)

States	Engineering	Non-Engineering	All Industries
West Bengal	5,213	3,558	4,211
Maharastra	5,003	5,543	5,379
Tamil Nadu	4,938	4,100	4,342
India	5,015	3,946	4,266

Source: West Bengal AnAnalytical Study, The Bengal Chamber of Commerce & Industry, Oxford & IBH Publishing Co. New Delhi, 1971, p. 94

Table: 10
Value Added Per Employee West Bengal and India Between 1959 and 1965 (In Rs.)

	West Bengal			India		
	1959	1965	Percentage Increase	1959	1965	Percentage Increase
Engineering Industry	3,322	5,213	156,9	3,442	5,015	145.7
All Industries	2,833	4,211	148,6	2,824	4,266	150.0

Source: West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, Oxford & IBH Publishing Co. New Delhi, 1971, p. 95

Table: 11
Capital-Output and Capital-Labour Ratio (Census Sector) in 1965

	Engineering	Non-Engineering	All industries
Productive capital per Rs.			

1,000 of value added			
West Bengal	**3,430**	**3,252**	**3,340**
Maharastra	**2,357**	**2,574**	**2,512**
Tamil Nadu	**2,509**	**3,859**	**3,415**
India	**3,651**	**3,782**	**3,736**
Productive capital per employee			
West Bengal	**17,884**	**11,573**	**14,060**
Maharastra	**11,790**	**14,266**	**13,513**
Tamil Nadu	**12,390**	**15,822**	**14,830**
India	**18,312**	**14,921**	**15,938**

Source: West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, 1971, p. 95

Table: 12 (a)
State-wise Growth Rates of Output, Employment and Productivity (1951-81)

States	**Overall**			**Secondary Sector**		
	Output	**Employment**	**Productivity**	**Output**	**Employment**	**Productivity**
Andhra Pradesh	**2.98**	**2.33**	**0.63**	**4.65**	**2.04**	**2.56**
Assam-Meghalaya	**3.29**	**2.41**	**0.86**	**4.07**	**2.95**	**1.09**
Bihar	**3.14**	**2.12**	**1.00**	**4.74**	**4.00**	**0.71**
Gujarat	**3.46**	**2.47**	**0.96**	**4.77**	**3.04**	**1.68**
Kerala	**3.01**	**2.00**	**0.99**	**3.83**	**2.57**	**1.23**
Madhya pradesh	**2.91**	**2.04**	**0.85**	**4.35**	**2.46**	**1.85**
Maharastra	**4.30**	**2.16**	**2.10**	**5.14**	**3.06**	**2.02**
Karnataka	**3.63**	**2.51**	**1.09**	**4.82**	**2.70**	**2.07**
Orissa	**2.93**	**2.02**	**0.89**	**3.89**	**2.30**	**1.57**
Punjab-Haryana	**4.49**	**2.08**	**2.36**	**6.05**	**3.63**	**2.34**
Rajasthan	**3.07**	**2.02**	**1.03**	**3.05**	**2.10**	**0.93**
Tamil Nadu	**3.67**	**2.44**	**1.21**	**5.19**	**3.03**	**2.10**
Uttar Pradesh	**2.42**	**1.52**	**0.89**	**4.07**	**1.54**	**2.50**
West Bengal	**2.53**	**2.17**	**0.36**	**3.18**	**2.36**	**0.80**
Average	**3.31**	**2.08**	**1.20**	**4.58**	**2.61**	**1.92**

Source: Mathur, A, 'Why Growth Rates Differ' Within India: An Alternative Approach, The Journal of Development Studies, Vo.23, No. 2, January 1987, p. 169

Table: 12 (b)
Sector-wise Decomposition of Growth (1951-81)-A Regional Analysis

	Overall Economy				**Secondary Sector**			
	L	**S**	**T**	**I**	**L(1)**	**S(1)**	**T(1)**	**I (1)**
Andhra Pradesh	**70.5**	**1.0**	**13.6**	**14.9**	**34.1**	**-2.8**	**39.0**	**29.7**

Assam-Meghalaya	63.3	1.2	13.0	21.8	44.9	7.5	16.6	31.0
Bihar	57.3	7.2	12.9	22.7	29.2	24.2	7.8	38.8
Gujarat	61.0	0.3	17.7	21.1	35.4	6.0	21.2	37.4
Kerala	56.8	-1.2	22.4	22.1	38.9	8.7	21.2	31.2
Madhya pradesh	60.9	4.3	14.3	20.5	32.1	5.1	28.2	34.5
Maharastra	35.4	2.2	29.3	33.2	25.6	8.6	23.5	42.2
Karnataka	57.6	0.7	17.9	23.8	35.5	1.8	27.3	35.4
Orissa	59.7	-0.4	23.6	17.1	38.2	4.0	27.6	30.2
Punjab-Haryana	31.3	0.4	36.4	31.9	17.8	11.8	20.9	49.7
Rajasthan	55.7	0.6	23.1	20.7	56.1	1.8	21.8	20.4
Tamil Nadu	54.0	0.6	20.0	25.3	29.5	5.4	24.3	40.8
Uttar Pradesh	54.6	-1.5	32.7	14.3	24.7	0.2	47.4	27.6
West Bengal	80.8	-2.3	15.2	6.3	58.2	3.6	17.4	20.9

Source: Mathur, A, 'Why Growth Rates Differ' Within India: An Alternative Approach, The Journal of Development Studies, Vo.23, No. 2, January 1987, p. 178

L-Percentage contribution of Labour to growth in over all economy
L(1)- Percentage contribution of Labour to growth in secondary sector
S- Percentage contribution of Structural Change to growth in over all economy
S(1)- Percentage contribution of Structural Change to growth in Secondary Sector
T- Percentage contribution of Technology to growth in over all economy
T(1)- Percentage contribution of Technology to growth in secondary sector
I-Percentage contribution of Interaction Effect to growth in over all economy
I(1)- Percentage contribution of Interaction Effect to growth in secondary sector

Table: 13
All India Changes in the Weights of Major Industrial Groups Between 1946 and 1978

Input based Classification	1946=100	1960=100	1965=100	1970=100	1978=100
Agro-based	66.55	44.08	34.74	33.68	28.4
Metal-based	9.30	18.55	24.71	21.93	22.7
Chemical based	4.92	8.94	8.91	12.86	15. 5

Source: Banerjee, D, Indian Industrial Growth and Corporate Sector Behaviour in West Bengal 1947-97, EPW, November 21, 1998, p. 3068

Table: 14
Relative Growth Propensity of Traffic of Calcutta-Haldia Port Between 1968-69 and 1984-85

Year	Total Traffic (in Million Tones)		Relative Growth Propensity of Traffic of Calcutta-Haldia port (per cent)
	Calcutta-Haldia Port	All Major Ports	
1968-69	7.96	55.09	14.4
1969-70	6.90	54.51	12.7
1970-71	6.01	55.58	10.8

1971-72	**7.30**	**59.01**	**12.4**
1972-73	**6.68**	**58.26**	**11.5**
1973-74	**6.32**	**63.66**	**09.9**
1974-75	**7.50**	**65.74**	**11.4**
1975-76	**7.70**	**66.20**	**11.6**
1976-77	**8.00**	**68.20**	**11.7**
1977-78	**7.81**	**66.77**	**11.7**
1978-79	**7.98**	**71.04**	**11.2**
1979-80	**8.80**	**79.90**	**11.0**
1980-81	**9.51**	**81.32**	**11.7**
1981-82	**9.92**	**87.98**	**11.3**
1982-83	**10.69**	**93.70**	**11.4**
1983-84	**10.47**	**100.60**	**10.4**
1984-85	**10.52**	**107.80**	**9.8**

Source: Sau, S.N, Economics of Clacutta-Haldia Port Complex, EPW, May 5-12, 1990, p. 1021

Table: 15

Registered Working Factories in West Bengal by Districts Between 1957 and 1967

Districts	**1957**		**1967**	
	Number	**Percentage**	**Number**	**Percentage**
Calcutta & 24-Paraganas	**1802**	**52.84**	**3299**	**58.31**
Howrah & Hoogly	**791**	**23.20**	**1359**	**24.01**
Burdwaman	**125**	**3.67**	**208**	**3.68**
11 Other Districts	**692**	**20.29**	**792**	**14.00**
Total	**3410**	**100.00**	**5,658**	**100.00**

Source: West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, 1971, p. 181

Table: 16

Registered Factory Employment in West Bengal Between 1951 & 1966

(No. In Lakhs)

Districts	**1951**		**1966**	
	Number	**Percentage**	**Number**	**Percentage**
Calcutta & 24-Paraganas	**3.75**	**57.2**	**4.45**	**52.9**
Howrah & Hoogly	**1.92**	**29.3**	**2.53**	**28.9**
Burdwaan	**0.40**	**6.1**	**0.77**	**9.2**
11 Other Districts	**0.48**	**7.4**	**0.65**	**9.0**
Total	**6.55**	**100.00**	**8.40**	**100.00**

Source: West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, 1971, p.47

Table: 17
Rate of Growth of Power of the Installed Capacity Between 1951 and 1966-67 and Number of Villages Electrified in West Bengal

States	1951 ('000KW)	1966-67 ('000KW)	Percentage Increase	Number of Villages Electrified as on 31.3.67
Andhra Pradesh	59	427	623.7	4,472
Assam	3	161	5,266.7	105
Bihar	47	147	212.8	4,523
Gujarat	142	676	376.0	2,246
Jammu & Kashmir	6	36	500.0	641
Kerala	33	365	1,006.1	1,805
Madhya Pradesh	39	377	866.7	1,292
Madras	155	1,381	791.0	7,406
Maharastra	339	1,455	329.2	5,970
Mysore	115	461	300.9	4,836
Orissa	5	318	6,260.0	631
Punjab & Haryana	71	919	1,194.4	4,924
Rajasthan	31	307	890.3	1,687
Uttar Pradesh	200	925	362.5	9,887
West Bengal	546	1,207	121.1	1,355
Total	1,835	10,246	458,4	54,082

Source: Memorandum Submitted to Fifth Finance Commission, Government of West Bengal, 1969, p. 17

Table: 18
Index of Industrial Production for West Bengal and India Between 1964 and 1970 (Base: 1963 = 100)

	1964	1965	1966	1967	1968	1969	1970
West Bengal	106.6	112.8	104.8	103.1	104.3	99.3	94.2
India	108.6	118.6	117.7	116.7	124.2	133.0	139.3

Source: Bose, D.K, "The Engineering Industry in West Bengal" in Sen, A; Banerjee N & Bannerjee, N (ed.) Problem of the Economy & Planning in West Bengal, Proceedings of a Symposium held on 24th to 27th February 1974, Centre for Social Studies in Social Science, Calcutta, 1975, p. 165

Table: 19
State Plan Expenditures by Major Heads of Development During Third (1961-66) and Fourth Five Year Plan (1969-74)
(Rs. in Crores)

Head of Development	Third Five Year Plan 1961-66	Fourth Five Year Plan (Provision) 1969-74
Agriculture and allied programme	37.54	59.04
Co-operative and community development	16.56	9.67
Irrigation and power	92.52	110.28
Industry and mining	25.12	14.98
Transport and communication	26.20	15.67
Social services	100.50	69.08
Miscellaneous	6.51	44.36
Total	304.75	323.08

Source: Bose, D.K, "The Engineering Industry in West Bengal" in Sen, A; Banerjee N & Bannerjee, N (ed.) Problem of the Economy & Planning in West Bengal, Proceedings of a Symposium held on 24th to 27th February 1974, Centre for Social Studies in Social Science, Calcutta, 1975, p. 167

Chapter: 4

Distributive Injustice to West Bengal by the Centre or Just a Case of Regional Imbalance?

The problem faced by a particular State being a part of the Indian federation which has centripetal bias and being a State belonging to the middle income State would be discussed in this chapter. Indian federation from the very outset suffered from over-centralisation of fiscal power leaving the States with insufficient economic resources while entrusting upon huge expenditure mainly related to social and welfare services. One estimate shows that while the Centre managed to retain almost two third of the total revenue raised in the country leaving only one third to the States. In contrast, distribution of expenditure is almost equally divided between the Centre and the States. (Ray, 1992, p. 148). Contrary to the usual belief that more the economy becomes free from the government's control the more decentralisation trend would be apparent in the federal structure, New Economic Policy (NEP) pursued since 1991 with the main thrust on de-regularisation and de-control of the economy, seems to have increased such centralising tendency of the Indian federal structure further.

Needless to say all States, irrespective of their economic status, belonging to the Indian federation have been facing the above mentioned negative impact of imbalance of fiscal power between the Centre and the States. But the States belonging to middle income and low income groups have added disadvantages. They seem to have further affected by the retrogressive trend of the inter-se resource allocation among the States. Thus there has been a distinct trend of unequal allocation of Central resources among the States and which is often tilted heavily towards the richer ones.

Regional imbalance of India can be traced as far back as to the pre-Independence period. Different land revenue systems and public expenditure policies of British India, as we have earlier mentioned, shaped the journey towards future development for different regions in India. And such developments taking place at unequal pace resulted in regional disparities. After Independence one of the main objectives of the Finance Commission and the Planning Commission was to eradicate this inter-State imbalance. Regional disparities not only remained pre-dominant feature in the Indian federation but also has been increasing over time despite such avowed objectives.

Pioneering studies undertaken by Rao (1981), covering the period 1956-65 and Geroge & Gulati (February 16, 1985) covering the period 1951-80 concluded that the federal transfers as a whole did not have a mitigating influence on the regional inequalities in India. And neither the statutory transfer nor the non-statutory transfers, when taken separately, were aimed at reducing socio-economic backwardness of the States. Consequently the transfer of resources from the Centre to the States failed to live up to the objective of reducing regional inequalities. Different micro studies (Grewal, 1974, Ansari, 1983; Prasad, 1988; Ramalingom & Kurup, 1991; Shukla & Roy Chowdhry,1992; Dandekar, 1993; Sarker, 1994; Murty, 1994; Chakraborty, 1998; Chakraborty, 1999; Kurian, 2000) undertaken from time to time came to the similar conclusion.

George & Gulati (February 16, 1985) observed that Centre-State flows was not equitable and this unfortunately was truer the greater was the discretion enjoyed by the Centre. Resource transfers made by the Finance Commission i.e., the statutory transfers accounted for only 2/5th of the aggregate budgetary transfers. Remaining 3/5th of the Central transfers to the States was made by the Planning Commission and the Union Ministers and these transfers have a high discretionary component. (George & Gulati, February 16, 1985, p. 290) Recent studies pursued by Rao & Sen (1996), Prakash (1994) have made similar observation that increasing proliferation of non-statutory transfers and consequent decline of statutory transfers have resulted in further regional imbalance.[96]

Centralisation of resources in the hands of the Centre was legitimised on the plea that it would eventually ensure equity in the inter-State distribution of resources. The relative shares of the three channels of Central transfers namely statutory transfers through the Finance Commission, Plan transfers through the Planning Commission and discretionary transfers through Centrally sponsored schemes by Central Ministers over the period 1956-81 is presented in the table 1 (see Appendix). As it is evident, the low income States as a group have always received relatively lower than average per capita transfers of all three types than the middle and rich income category States. (George & Gulati, February 16, 1985, p. 294)

The States from 1960-61 to 1986-87 were ranked according to the combined score and presented in table 2 (see Appendix) which shows that over time the relative positions of some States have been continuously declining while other States made rapid progress eventually widening the regional disparity. Roughly speaking, West Bengal was classified under the high income States until the early 1970s when it ranked among the first five most developed States. And thereafter in accordance with its deteriorated

[96] The share of transfers recommended by the Finance Commission i.e., statutory transfers in the total current transfers declined from about 65 per cent during the Fourth Five Year Plan (1969-74) to just little over 60 per cent in the Seventh Five Year Plan (1985-90) and in 1992-93 58.9 per cent. Furthermore, the formula based transfers given by the Finance Commission and the Planning Commission declined drastically from 85 per cent in the Fifth Plan to 78 per cent during the Seventh Plan and slightly increased to 79.8 in 1992-93. The most striking feature is the proliferation of non-formula based transfers. The non-formula based transfers particularly for Central sector and Centrally sponsored schemes have shown a substantial increase from 11.6 per cent during the Fourth Plan to 18.0 percent during Seventh Plan and slightly declined to 17.4 per cent in 1992-93. This indicates an increasing degree of discretion exercised by the Central government. As we have noted earlier, the more the importance of discretionary transfer the grater would be inequitable transfers from the Centre to the States. (Rao, M.G & Sen, T.K, Fiscal Federalism in India Theory and Practice, 1996, Macmillan India Ltd. New Delhi, p. 136)

position, it started being categorised under the middle income States though it varied from one study to another. The ranking of the State registered gradual and drastic downslide over the period from 1960-61 to 1986-87. The State's ranking went on steadily sliding down from the third position in 1960-61 to the fifth position in 1970-71 to the sixth position in 1980-81 to the seventh position in 1984-85 and the ninth position by 1986-87. Contrary to that Punjab, Gujarat, Maharastra and also four Southern States (Karnataka, Andhra Pradesh, Kerala, Tamil Nadu) were able to improve their position over the period.[97]

West Bengal belonging to the rich income category until the early 1970s managed to enjoy the benefit of all types of the federal fiscal transfers of India which had a distinctive trend of discriminating against the backward States. The study undertaken by George & Gulati (February 16, 1985) covering the period 1956-81 revealed that West Bengal managed to receive higher per capita transfers of two types i.e., statutory transfers (Rs. 524) and discretionary transfers (Rs. 486) than average per capita statutory transfers (Rs. 471) and discretionary transfers (Rs. 449) of all high income States taken together. The study indicates that the State also managed to receive higher per capita statutory transfers (Rs. 516) and per capita discretionary transfers (Rs. 380) than the average of all States taken together including low and middle income States. The State was only lagging behind in terms of per capita Plan transfers. Per capita average Plan transfers for other high income States (Rs. 338), the middle income States (Rs. 436) and the low income States (Rs. 398) was higher than West Bengal (Rs. 314) during the above mentioned period (table 1 see Appendix). The reasons behind such low Plan transfers is not difficult to seek. Plan transfers to the State and hence total Plan outlay depends on the capability of the own resource mobilisation of the State. We will dealt with this area in detail in later part of this study to show that the resource mobilisation potential of West Bengal was always quite low compared to the other high income States.

Transfers made by the Finance Commissions

The transfers made by the Finance Commission i.e., statutory transfers could be considered. In pursuance of the study of politics of discrimination we can divide the period into two phases; one until the late 1970s the period

[97]There is a drastic change of position in the ranking hierarchy for some States. Punjab continued to occupy the first position in the development list and Bihar occupied the last position for all the years. Gujarat which was at the 7th position in 1960-61 continued to improve its position and came to the 3rd position by 1984-85. Maharastra was at the 5th position in 1960-61and came to the 2nd position in 1970-71 and in remained at 4th position between 1984-85 and 1986-87. In contrast the decline of Assam, and West Bengal is noteworthy. Assam, which occupied the 4th position in 1960-61 came down to the 11th position by 1970-71 and to the 14th position just above Bihar between 1980-81 and 1984-85. Thus, "the top positions in the development hierarchy were occupied by Punjab and Haryana where agriculture and small industry dominated and they were followed by two urban industry based States, Gujarat and Maharastra.... The next four positions were occupied by four southern States-Karnataka, Tamil Nadu, Kerala, and Andhra Pradesh in that order. The remaining seven position were occupied by the less developed States starting with West Bengal ending with Bihar". (Sarker, P.C, Regional Imbalances in Indian Economy Over Plan Periods, EPW, March 12, 1994, p. 629)

under the Congress rule except for two years (1967-69). Other is from the late 1970s, during the period of the Left Front government. Thus, the award made under the First Finance Commission (1952) to the Sixth Finance Commission (1973) covers the pre-Left Front era while from the Seventh Finance Commission (1978) to the Eleventh Finance Commission (1998) covers the post-Left Front era.

The study undertaken by Rao (1981) while examining the awards given by the Second Finance Commission (1957) to Fifth Finance Commission (1969) separately, concluded that the total federal transfers made under the Finance Commission were not directed towards enhancing the resources of the backward States so that they are enabled to keep pace with the developed States. On the contrary, the Commissions tended to transfer more resources to the developed States namely West Bengal, Maharastra, Gujarat and Madras. (Rao, 1981, p. 146). The study revealed that West Bengal, Madras, Gujarat and Maharastra, these four developed States occupied the first four ranks in terms of State-wise composite index of development during the period between 1956-65.It is, however, noteworthy that West Bengal occupied the first rank in terms of the composite development index throughout the benchmark period. (ibid., p. 90) We have already noticed from table 1 (see Appendix) that aggregate transfers made by the Finance Commissions i.e., statutory transfers over the period from 1956-81 clearly went against poor income States. West Bengal which belonged to the high income States managed to receive considerably higher amount of per capita statutory transfers compared to other States during the above mentioned period. (George & Gulati, February 16, 1985)

Contrary to the above observations, the accusation of discrimination against West Bengal as far as distribution of statutory transfers was concerned came to the fore during the short period of the United Front government (1967-69) as well as during the Congress regime as we have mentioned before. It was complained that West Bengal was being miserably left with insufficient Central resource devolution recommended by the successive Finance Commissions. The, per capita Central resource devolution to West Bengal was not only lower than other States but it had also been decreasing over time. Table 5 of Chapter 2 (see Appendix) indicates that West Bengal occupied 3rd place in India in respect of per capita share of Central taxes and statutory grants (Article 273 and 275) in 1952-53. In 1957-58 West Bengal's position was 3rd but in 1962-63 it went down to the 9th place and in 1966-67, it went further down to 11th place. (Memorandum Submitted to Fifth Finance Commission, GOWB, 1969, p. 13)

So far in all studies on regional disparities in the Indian federation, West Bengal was either categorised as high income State or later on as middle income State. Such aggregate studies of regional imbalance consequent on regressive federal fiscal transfers often failed to take into account the distinct position of a particular State both compared to other States and compared to its position attained before i.e., they lacked in both cross section as well as time series analysis. Considering the position of West Bengal separately, it would be evident that even though during the first three decades after Independence West Bengal was far ahead of other

States[98] and was categorised as high income State, its position in terms of per capita statutory transfers started declining over time both compared to the other high income States and compared to its previous rank.

It was in this context the then Chief Minister, Mr. A. Mukerjee of the United Front government complained that West Bengal was discriminated against while other better off States managed to have considerable surplus in their budget after the devolution of Central taxes and grants recommended by the Fifth Finance Commission (1969). Such allegation made by the West Bengal government was questioned by some scholars and academics concerned with this area[99]. It was argued that "the formula for distribution of the divisible pool of taxes among the States is based on multiple factors like population, respective contribution by the States, an integrated index of backwardness, etc. While it is possible to have reservations about some particular component of the formula and to seek its modifications, it is hardly justifiable to demand that certain State's be deprived of their due share under general formula simply because they have been able to secure surpluses by better management of their finances. Moreover, of the seven surplus States (Bihar, Gujarat, Haryana, Madhya Pradesh, Maharastra, Punjab, Uttar Pradesh) as referred to by Mr. Mukerjee, four States were awarded a smaller percentage of the divisible income tax pool and three States of the excise duties pool than West Bengal. The real source of surplus for most of the seven fortunate States lay in the relatively higher growth of income from their own revenue. It will be seen from the table 3 that except Bihar the linear growth of revenue from State sources was higher than West Bengal in the case of all other surplus States including the combined position of Punjab and Haryana". (BCCI, 1971, p. 147) (see table 3 in Appendix)

Similar trend followed during the successive Finance Commissions awards since the late 1970s. Therefore, West Bengal's per capita share of resources disbursed through the Seventh Finance Commission (1978) was in the 9th position among the Indian States and which went down to the 10th under the Eighth Finance Commission (1984) award. Murty, 1994, pp. 44-48) Evidently, West Bengal, being one of the middle income States, since the late 1970s managed to receive favourable statutory transfers compared to the less developed States but was not able to attain its pre-1965 position. In sum, Murty (1994) while examining the awards given by Second Finance Commission (1957) to Eighth Finance Commission (1984) concluded that "relatively developed and middle level States such as Maharastra, West Bengal and Uttar Pradesh have received higher absolute amount as well as percentage share compared to other States. In per capita terms also

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[98] As West Bengal in terms of per capita income of states in India ranked first between 1950-51 and 1960-61, its position deteriorated drastically to the tenth position in 1970-71. Therefore, it is quite evident that economic decline of the State started pretty much earlier which reached its culmination during the economic recession of the late 1960s.

[99] For details see The Bengal Chamber of Commerce and Industry, 1971, pp. 141-145; Banerjee, N, "Financial Resources For West Bengal's Development" in Bhattacharyya, D (ed.) Focus on West Bengal Problems and Prospects , 1972, pp. 141-157

relatively developed and middle level States like Punjab, Assam, Karnataka and West Bengal have received higher amounts. Of all the developed States, Maharastra has always retained comparatively higher position when compared to other developed States..... Less developed States like Bihar, Madhya Pradesh, Rajasthan and Orissa have received smaller amount both in absolute as well as per capita terms. The relative position of the different States in the total assistance has not changed much. In conclusion, it can be said that the Finance Commission's transfer have not been in favour of more needy and less developed States nor have they been uniformly distributed." (Murty, 1994, p. 40) Shukla & Roy Chowdhry (1992) covering the same period also felt that even though different Finance Commissions were constantly in search for best criteria which was expected to benefit less developed States, but in practice "even the best criterion evolved by them had only scratched the surface of the problem of ever-widening regional disparities". (Shukla & Roy Chowdhry, 1992, p. 90) Regressive tendency of fiscal transfers made under the Finance Commissions said to have continued and aggravated since 1990s i.e., during the post-liberalisation period. Chakraborty (1999) reveals that all types of federal fiscal transfers including that of the Finance Commission during the decade of 1990s clearly went against the low income States and favoured high and the middle income States (in which West Bengal belongs to) which will be discussed subsequently.

Of all transfers, that made by the Finance Commission is said to have less regressive tendency than other transfers such as Plan transfers, discretionary transfers and financial assistance given by the Centrally controlled financial institutions (including scheduled commercial banks).[100] Despite that by and large, Finance Commission's transfer, as it was observed by different studies undertaken from time to time, had always discriminated against less developed States while favouring the forward States. West Bengal started its journey as a high income State and consequently favoured by the awards of the Finance Commissions compared to the other middle and low income States particularly until the late 1960s which is evident from the studies undertaken by Rao (1981) and George & Gulati (February 16, 1985). Subsequently its relative position deteriorated and over time the State started lagging behind in terms of not only Finance Commission's transfers but also other transfers as well and will be evident in the subsequent part of the Study. Thus the observation is reinforcing the fact that over time West Bengal has fallen victim to the regressive trend in the existing federal fiscal transfers and was no longer favoured as other highly developed States. This is more true in the case of Plan transfer and discretionary transfers and also the financial transfers made by all India financial Institutions. But being a middle income State, West Bengal always managed to remain far ahead of other backward Sates. Because there has been a clear correspondence between the level

[100]Mathur (1994) having considered several studies undertaken so far covering last few decades, came to the conclusion that of all transfers statutory transfers made by the Finance Commission has been reflecting relatively progressive nature on account of the fact that the Finance Commission have increasingly incorporated indicators of backwardness in their awards. (Mathur, A, Regional Economic Change and Development Policy in India' in Puttaswamaiah, K (Ed.) Economic Policy and Tax Reform in India, Indus Publishing Company, New Delhi, 1994, pp. 220-221)

of development and magnitude of fiscal transfers. On the contrary, there has been hardly any evidence of State specific, time specific and deliberate discrimination against the State in particular.

Transfers made by the Planning Commissions

Total Plan outlay of the States consists of their own resources and Central Plan assistance both of which depend almost exclusively on the capacity of additional resources mobilised by the States. In absolute terms the advanced States managed to raise more resources and have been able to finance the bulk of the Plan requirements as compared to the other poor and the middle income States. Thus higher amount of own resource mobilisation of the richer States enabled them to receive greater Central Plan assistance which in turn magnify their total Plan outlay compared to other States. Backward States, on the other hand, failed to receive adequate share of Central Plan assistance hence greater Plan outlays on account of their low resource mobilisation. Evidently, the major factors that may have accentuated regional disparities are relative financial capacity and relative revenue base of the States which are related to the stage of development. (Ansari,1983, p. 2081)

However, prior to the Fourth Five Year Plan (1969-74) Central assistance for State Plan were largely distributed on a schematic basis. Both the quantum of transfers and its loan grant component were discretionary. There was no objective criterion for inter-State allocation of Central assistance and it was mostly influenced by political considerations. This system was bound to be regressive and discriminatory while favouring the richer States than the poor ones. Gadgil formula was introduced in 1969 in order to incorporate some progressivity in the Central Plan transfers. But as time went on it was felt that the formula could not completely eradicate regressive tendency of the Central Plan transfers and hence was unable to ensure equity in Plan transfers. (Ramalingom & Kurup, 1991, p. 506; Kawadia & Kapade, 1994, p. 55) Furthermore, proliferation of the Centrally sponsored schemes tend to neutralise any attempt of introduction of progressive formula as regards Central Plan transfers. Thus, "the importance of the Gadgil formula itself has been progressively whittled down and now almost 50 per cent of the Central Plan assistance to the States is given outside the formula". (George & Gulati, February 16, 1985, p. 290) Therefore, "the objective of equity would have been better served, had the quantum of Central Plan assistance increased at a higher rate. Instead what has been happening is that the Centre has been transferring an increasingly higher proportion of funds to the State in the form of Centrally Sponsored Schemes which today amount to as large as 80 per cent of the Plan assistance." (Ramalingon & Kurup, 1991, p. 503)

In an attempt to ensure more equity in Plan transfers the modified Gadgil formula[101] was introduced from the Sixth Plan (1980-85) which, however,

[101] During the Fourth Plan period distribution of Central Plan assistance based on a clearly defined formula was adopted for the first time which was thought to achieve a fair amount of equity and objectivity in the matter of Plan transfers to the States. However, overall performance of the formula during the Fourth Plan (1969-74) and Fifth Plan (1974-79) was

improved the position of the poorer States in terms of per capita Central Plan assistance but it did not have any significant impact on per capita Plan outlay. Thus, in spite of a definite shift in favour of the poor States in regard to Central Plan transfers, the disparity between the per capita Plan outlays of the low income Sates and those of the high income States only increased. (Ramalingom & Kurup, 1991, p. 506; Kawadia & Kapade, 1994, pp. 55-60)

One of the main reasons for the increasing disparity is that the share of Central assistance in the total Plan outlay has been declined continuously from 61.8 per cent in the First Plan to 53.0 per cent in Fourth Plan (Rao,1981, p.148) and to just 23.02 per cent in the Seventh Plan (Kawadia & Kapade 1994, p.60) In the post-liberalisation period Central assistance for State Plan decreased further from 12.85 per cent in 1992-93 to 11.1 per cent in 1997-98. (Sa´ez, 1999, p. 329) As a result low income States which rely relatively more on Central assistance for State Plan expenditure were affected severely and have had to be content with slow growth in their per capita Plan outlays. (Grewal, 1974, p. 80; Ansari, 1983, p. 2079; Ramalingom & Kurup,1991, p.506; Kawadia, & Kapade, 1994, p.60) Thus "during the first eighteen years of Planning the poorer States suffered in the absence of an objective formula to determine the Central transfer for Plan purposes. During the next twelve years these States continued to suffer in spite of the implementation of an objective formula which was not sufficiently progressive in itself. In any case the degree of progressivity was not enough to bring about progressivity in State's Plan outlays. In fact what is desired is not merely progressivity in Plan transfers but progressivity in Plan outlays." (Shukla & Roy Chowdhury, 1992, p.161)

Rao (1981) examining the period from Second Plan to Fourth Plan observed that developed States comprising Maharastra, West Bengal and Madras were given liberal Central assistance for Plan while backward States in general were denied much needed resources. (Rao, 1981, pp.154-155). Another macro study undertaken by George & Gulati (February 16, 1985) arrived at the same conclusion as we have already noticed. (table 1 see Appendix). Studies undertaken by Ansari (1983) Ramalingon & Kurup (1991) Sarker (1994) and Kawadia & Kapade (1994) covering last two decades were also of the same opinion that there is a clear correspondence between the level of development and Plan Outlay. It is, however, interesting to find that, as Ansari observed, the States which have had higher per capita Plan expenditure are also those which have a relatively high per capita income. (Ansari, 1983, p. 2081). It is also noticed that the States which received higher per capita cumulative Plan outlays

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not satisfactory. A modified formula was introduced on the eve of the Sixth Plan (1980-85) responding to the collective demands from the State governments. The weightage given to backwardness (per capita income) was doubled and the share assigned to continuing irrigation and power projects was dropped. Thus, it was observed that "with the modification of this formula a perceptible shift in favour of the poorer States was achieved in regard to Central Plan transfers during the Sixth and Seventh Plan periods". (Ramalingom, R & Kurup, K.N, 'Plan Transfers to States Revised Gadgil Formula: An Analysis', EPW, March 2-9, 1991, p. 506) were mainly of developed States. (Sarker,1994, p. 629) Therefore, there is a strong positive association between Per Capita Plan Outlay (PCPO) and Per Capita Net State Domestic Product. (PCNSDP). Despite the fact that one of the professed goals of India's Five Year Plans has been achieving balanced regional development. (Ghosh & De, 1998, p. 3045)

It is worth noting in this connection that though West Bengal was grouped as high income State during the first three decades after Independence but considering its position separately, it was found that Plan outlay allocated to West Bengal during the first five Plan periods i.e., from First (1951-56) to Fifth Plan (1974-79) i.e., during pre-Left Front era, was quite low compared to the other high income States (tables 4 & 5, see Appendix). For example, in 1960-61, during the hey day of West Bengal, the per capita Plan outlay of West Bengal was Rs. 102 which was quite high compared to the poor income States namely Bihar (Rs. 65) Rajasthan (Rs. 92) and Assam (Rs. 86) and also the all India average (Rs. 101). But the amount was quite low compared to the high income States such as Gujarat (Rs. 134), Haryana (Rs. 168) and Punjab (Rs. 168). (table 5 see Appendix) Such declining trend of per capita Plan outlay of West Bengal was evident during the subsequent Plan periods. However, the reason behind this is not difficult to seek. After comparing the tables 6 & 7 (see Appendix) we can get the clue. Per capita own resource mobilisation of West Bengal from the First Plan to Fifth Plan period was considerably lower than the high income States which is, as we have discussed before, the main determinant in receiving higher Plan outlay. However, it is worthwhile to note that per capita Central assistance for Plans of the West Bengal during the First Plan (1951-56) to Fifth Plan (1974-79) was more or less in accordance with other high income States except Punjab.

It is in this context, i.e., against the backdrop of such regional disparity of the Indian federation the complaint of discrimination against West Bengal in particular, in the allocation of lower Plan outlay compared to the high income States should be examined. Which was raised by the United Front government (1967-69) and later on by the Left Front government. (See Different Economic Review since 1977, GOWB). Subsequent part of the study will deal with this area in further detail.

Such discussion, however, requires in depth analysis of different aspects of West Bengal's economy. Size of Plan outlay of a particular State depends on the trend of quality of expenditure (i.e., share of Plan & non-Plan and revenue & capital expenditure) of the State, tax effort of the State and quality of infrastructural condition and so on. That in turn determines the Balance of Current Revenue (BCR) of the State. Again BCR in turn is the main determinant of size of Plan outlay of a particular State. During 1990s the State was considered as most indebted State with the highest level of revenue and fiscal deficit in its budget. Consequently quality of expenditure declined sharply i.e., proliferation of unproductive revenue expenditure over capital led to low level of capital formation which further resulted in overall poor infrastructural development and hence low resource mobilisation potential. Such decline started not only during 1990s but also during the last two decades. The fiscal health of the State seem to have further deteriorated due to persistent low level of tax effort[102] and negligible contribution of non-tax revenue collection compared to most major States in India during the last two decades (for detail see chapter 6).

Several studies (BCCI, 1975, Indian Chamber of Commerce, 1983; Mallick, 1993, Centre for Monitoring of Indian Economy, March 1997: Ghosh & De, 1998) undertaken from time to time have indicated that the relative infrastructural index of West Bengal has deteriorated drastically both compared to the other States as well as compared to its own standard achieved in the past. Ghosh & De (1998) constructed a composite index of regional infrastructural development which is called Physical Infrastructure Development Index (PIDI) on the basis of varying weights to six commonly used representative indicators of physical infrastructure such as transport network (railway + road), irrigation facility, power and telephone density etc. It was observed that the positive association between Per Capita Net State Domestic Product (PCNSDP) and PIDI has been strengthened over time. Union government's disbursement of funds through Five Year Plans has also practical relationship with PCNSDP and level of PIDI achieved by a particular State. (Ghosh & De, 1998)

Thus all these factors mentioned above are inter-related and prevented West Bengal from any enhancement of own resource mobilisation potential of the State which would in turn seem to have put the State in a unfavourable position of receiving higher Plan outlay. As we know from earlier discussions that during the Pre-Left Front era in terms of almost all economic indicators West Bengal was on the decline which had only accentuated further during the post-Left Front era.

Therefore, allocation of Plan outlay for different Plan periods during the post-Left Front era seems to have been in accordance with its resource raising capacity for financing Plan expenditure. During the Sixth Plan (1980-85) West Bengal's per capita Plan outlay was Rs. 790 as against the high income States namely Gujarat (Rs.1,378), Haryana (Rs.1,793), Maharastra (Rs.1,225) and Punjab (Rs.1,444). Although per capita Sixth Plan outlay of West Bengal was lower than high income States but which was

[102] Different studies undertaken in this area indicate that West Bengal is the State with lowest tax effort compared to other States particularly the high and middle income States. Chakroborty (1998) measured the own tax effort of different States between 1980-81 and 1992-92 when own tax-SDP ratio of West Bengal varied from 5.78 to 8.14. The variation of tax-SDP ratio (which is one of the most common indicators of tax effort of the State) in other high income States namely Maharastra,(7.48 to 10.97) Gujarat (7.72 to 12.49) Karnataka (8.09 to 13.91) Tamil Nadu (8.85 to 14.41), Haryana (7.71 to 10.76) even Madhya Pradesh (6.30 to 8.54) and Rajasthan (5.58 to 8.85) during the same period seems to be much higher than West Bengal. (Chakraborty, P, 'Growing Imbalances in Federal Fiscal Relationship', EPW, February 14, 1998, p. 351)
Coondo (2001) covering the period from 1986-87 to 1996-97 arrived at the conclusion that on the whole Assam, Bihar, Orissa, Uttar Pradesh and West Bengal are the low own tax-SDP ratio States. The States of south and west viz.; Karnataka, Kerala, Tamil Nadu, Goa, Gujarat, and Maharastra constitute the group of high tax-SDP ratio States and the remaining States belong to medium tax-SDP ratio category. (Coondo, D & Others, "Relative Tax Performances Analysis for Selected States in India", EPW, October 6, 2001)

considerably higher than the poor income States namely Bihar (Rs. 572), Orissa (Rs. 684), Uttar Pradesh (Rs. 662) and Rajasthan (Rs. 765). Even the per capita Plan outlay for West Bengal during Sixth Plan was much higher than the middle income States such as Kerala (Rs. 726), Andhra Pradesh (Rs. 713) and Karnataka (Rs. 773). (table 8 see Appendix)

However, over time in respect of high income States the Central assistance as proportion of the total Plan outlay decreased from 33.08 per cent in the Fourth Plan to 15.17 per cent in the Sixth Plan and then slightly increased to 18.21 per cent during the Seventh Plan as we have mentioned earlier. This shows that the high income States were able to finance significantly higher proportion of their Plan outlay from their own sources compared to the low income States and hence are less dependent on the Centre. (Ramalingom & Kurup, 1991, p. 503) Contrary to this observation, after comparing the column of 1 and 3 of table 8 (see Appendix) we would notice an interesting phenomenon. West Bengal, (even though is grouped under high income States, and tend to compare itself with high income States while alleging of discriminatory attitude of the Centre) seem to be much more dependent on the Central assistance for financing Plans not only during the Sixth and Seventh Five Year Plan but also during the two earlier Plans as we have also observed from the study undertaken by Ansari (1981).[103] It is, however, evident from the column 1 of table 8 that Central assistance as proportion of total Plan outlay during the Sixth Plan was 19.11 per cent for West Bengal which was the highest except Karnataka (21.22) among the high income group States which indicates greater reliance on the Central assistance of financing for the State's Plan and lower resource mobilisation capacity of the State.

[103] During the fourth five year Plan the proportion of such dependence of West Bengal was 58.54 percent which was not only higher than all high income States' average (33.08) but also higher than many low income States. During the Fifth Plan its dependence on Central assistance as indicated by the proportion of Central assistance in its total Plan outlay was 24.56 per cent as against the high income States' average , 18.80.

States	Central assistance as proportion of total Plan outlay	
	IV Plan	V Plan
Average for Low Income States	54.78	33.97
Andhra Pradesh	54.08	28.66
Bihar	68.23	36.52
Madhya Pardesh	53.51	24.17
Kerala	51.28	42.32
Orissa	62.28	40.07
Rajasthan	69.17	41.09
Tamil Nadu	35.82	26.47
Uttar Pradesh	43.94	32.49
Average for High Income States	**33.08**	**18.80**
Gujrat	28.43	18.01
Haryana	21.23	16.86
Karnataka	44.53	25.81
Maharastra	23.62	14.37
Punjab	22.18	13.24
West Bengal	58.54	24.56

Source: Ibid.,

Per capita outlay during the Seventh Plan (1985-90) for West Bengal was as low as Rs. 931, much lower than not only all the high income States average but also lower than the all low income States except Bihar (Rs. 905). (See table 8 in Appendix) Dismal performance of the State in achieving Sixth Plan targets and huge shortfall in projected own resource mobilisation (81.4 per cent, which was the highest of all States) seem to have played a big role in lowering Plan outlay of the Seventh Plan. (Bagchi & Sen, 1992, pp. 57-58) However, during the Sixth Plan shortfall in reaching the Plan targets for West Bengal was nearly 50 percent which was the highest of all States' average (26 per cent). Consequently, total Plan outlay of the Seventh Plan (Approved) of West Bengal was only 18 per cent higher than the Sixth Plan (Approved). Even so the State could not achieve the Plan target and registered a shortfall of 14 per cent as against all India average of 11.3 per cent (table 9 see Appendix) Contrary to that Central assistance as proportion of total Plan outlay of the State during the Seventh Plan was as high as 29.43 per cent which was the highest among the all high income States' average (18.21). (see Column 2 of table 8).

During the Eighth Plan (1992-97) and Ninth Plan (1997-02) periods apparently the same trend continued. In the absence of per capita Plan outlay data we can consider total Plan outlay of the States. Given that West Bengal one of the most populous States, the total Plan outlay of West Bengal during the Eighth Plan (Rs. 9,760) seems to be quite low compared to both the high and the middle income States. But despite having considerably low Plan outlay West Bengal failed to attain its Plan target being the shortfall in this account 33.20 per cent. Only two States had higher shortfall in realising Plan outlay than West Bengal viz. Bihar (63.75) and Orissa (49.24). West Bengal, however, was the only State except Punjab whose own resource mobilisation for the financing of the Eighth Plan has shown significance dependence on borrowing. As far as projected share of own funds for Eighth Plan is concerned, the percentage share of own funds of the State was (--) 68.2 plus usual borrowing of the State (72.1 per cent). Evidently, own funds (--68.2) of the State was also made up of borrowing. However, in realised Plan outlay the magnitude of borrowing further increased to 110.8 per cent. Contrary to that Central Plan assistance (projected) for the Eighth Plan for West Bengal was as high as 96.1 per cent which was the highest among all States except Punjab (139.4 per cent). However, realised Central Plan assistance for West Bengal was reduced to 54.5 percent. Nevertheless which was greater than all the high income and the middle income States except Punjab (62.6 per cent). Only two States from the poor income group i.e., Bihar (97.2 per cent) and Uttar Pradesh (58.3 per cent) managed to receive higher realised Central Plan assistance than West Bengal due to their significant shortfall in realised own resource mobilisation. (table 10 see Appendix). Thus against the backdrop of persistent higher share of the Central Plan assistance, performance of the State in own resource mobilising for financing Plans i.e., from the Sixth Plan (1980-85) to Ninth Plan (1997-02) needs to be examined in detail in the subsequent part of this study.

In sum it can be said that West Bengal though could not receive higher Plan outlay during the successive Plan periods i.e., not only during the pre-Left Front era but also during the post-Left Front era. But its performance has been very much in line with its own resource mobilisation effort and the overall performance on different development indicators. Therefore, taking into considerations all the aspects of Plan transfers against the backdrop of regional disparity of the Indian federation and problem of receiving higher Plan outlay for less developed States (whose own resource mobilisation was lower than others) complaint of State specific and time specific discrimination against a particular State for allocation of low Plan outlay seems to have no ground.

Instead, two types of arguments seem to come to the fore, one related to egalitarian principles and another, related to market. Following egalitarian principle we can question against the regressive structure of the federal fiscal relations in India which accentuates regional disparity instead of lowering it and can raise the question whether the approach of the Finance Commission and the Planning Commission should be changed radically as to put more emphasis on enhancing the revenue base of the less developed States instead of relying on the so called progressive resource devolution criteria. Ansari (1983) argued that it seems necessary to help the poorer States in order to break the vicious circle in which there are trapped and help them enhancing their own resource mobilisation capacity by accelerating their pace of development so that they can catch up with the developed States. This would eventually enable them to receive more Plan assistance from the Centre and hence greater Plan outlay. That would, however, further enable them to increase their own resource mobilisation potential. (Ansari, 1983, p. 2081) On the other hand some may argue that the federal fiscal transfers of India should be guided by the principle of market. Therefore, the States which fail to mobilise adequate resources should be left with low Plan outlay while better off States should be awarded for their high resource mobilisation effort instead of penalising them for their better performance. The advocates of egalitarian principle would, however, question, whether a poor State can at all mobilise more resource unless it is provided adequate Plan outlay and hence higher level of Plan expenditure. For low resource mobilisation of the poor States belonging to poor regions largely depends on the pre-existing regional imbalance since the pre-Independence days. It is not only the outcome of inefficiency in fiscal management and practising fiscal imprudency by these States.

But such egalitarian principle (accepting only the structural limitations of the less developed States) seems to allow the less developed States to wash their hands off their own responsibility of enhancing their own resource mobilisation capacity and limited though not insignificant potential of the individual State's in augmenting their own resource base. Thus, what immediately arises in our mind is whether the low revenue potential, proliferation of revenue expenditure and low capital formation of the State is only the outcome of structural lacuna of the State which belongs to the regressive set up of the Indian federation or it is also partly the outcome of lack of exploitation of own resource potential combined with fiscal imprudence and fiscal in-discipline of the States. Later part of the study will try to seek answer to this question.

Transfer of resources through Centrally controlled financial institutions and commercial scheduled banks.

Of all types of resource transfer from the Centre to the States, the transfer of resources through the financial and semi-financial institutions seem to play a big role in aggravating regional disparities which is, however, often overlooked in the discussion on Centre-State financial relations.[104] After Independence Indian Constitution placed banking and insurance under the Central list. Afterwards practically the whole unorganised banking and insurance and deployment of all financial savings canalised through organised banking and insurance came under the direct control of the Centre with the nationalisation of these institutions. (George & Gulati, February 16, 1985, p. 292) Furthermore, commercial banks which also accounted for significant portion of the flow of institutional funds came under direct Central governmental control with the nationalisation of the scheduled commercial banks in 1969. (George & Gulati,1978, p. 1391)

George & Gulati (1978), George & Gulati (February 16, 1985), Shukla & Roy Chowdhury (1992) and recently Kurian (2000) observed that equity consideration has not been given adequate importance in the inter-State distribution of investment funds by the Centrally controlled financial institutions and commercial banks. Therefore, inter-State flow of institutional finance has been showing highly regressive tendency over the period. Discrimination against the less developed States in the matter of distribution of institutional finance is evident clearly from table 11 (see Appendix). During the period of 1969-76 average per capita commercial banks credit and investment was Rs. 270 for the high income States as against Rs. 160 for the middle income States and Rs. 70 for the low income States. Therefore, per capita bank finance of the less developed States was almost one fourth of that of the high income States. As regards per capita total institutional finance during 1969-76 (i.e. financial transfers made by the Centrally controlled financial institutions plus transfers from commercial banks) high income States managed to receive as high as Rs. 366 as against Rs. 222 for the middle income States and Rs. 109 for the low income States. Same trend seems to have followed in the subsequent decades. Therefore, both the studies undertaken by George & Gulati,

[104] "The disbursal of funds by these institutions has not been studied extensively from the Centre-State financial relations angle, though the importance of institutional financial flows in accentuating regional disparities was felt even earlier. Firstly, most of these institutions have been established by, or transferred to the public sector under the Central Government for the explicit purpose of implementing national objectives. Secondly, these institutions draw basically from the same pool of the community's resources as budgetary finance. Thirdly, most of these institutions rely heavily on the Union budget and the Reserve Bank of India for their funds. Fourthly, the volume of their disbursements in different States is quite high in comparison with Union Government's disbursal of budgetary funds to State governments.... Fifthly, the volume of finance from these institutions going to States is very high in comparison with the State's own disbursement from their capital budgets...." (Shukla, P.R & Roy Chowdhry, S. K, Centre-State Finances in Indian Economy, Akashdeep Publishing House, New Delhi,1992, p. 254)

(1985) and (Kurian, 2000) covering the period 1973-80 and the post-liberalisation period reconfirmed the above mentioned observation evidenced in table 11.

Considering the position of West Bengal separately, it would be evident that during both 1969-76 and 1973-80 time periods i.e., broadly speaking during the pre-Left Front era, commercial bank's credit allocation as well as transfers from all India financial institutions were quite low compared to not only high income States to which West Bengal belonged but also compared to the some middle income States. This observation was also supported by different studies undertaken from time to time by Bengal Chamber of Commerce and Industry (BCCI)(1971), National Council of Applied Economic Research (NCAER) (1962), Report of the Taxation Enquiry Committee, Government of Kerala, (1969). Recently the studies undertaken by Choudhury (1975), Das & Maiti (1998), Kurian (2000) indicate that West Bengal's share of total institutional finance as well as credit deposit ratio during the post-Left Front era have been much lower than the other States.

However, Shukla & Roy Chowdhury (1992) and recently Kurian (2000) observed that in the regressive set up of the Indian federation the lower the per capita income ranking of a State, the lesser is the share of institutional finance. They further mentioned that the States which can spend little budgetary funds for capital investment in industry and infrastructure facilities on account of their poor resource base are often left with little resource disbursed by the Centrally controlled financial institutions which leads to further handicap in infrastructural development and low potential of attracting investment in the region. This further resulted in low disbursement of bank credit and low level of financial assistance to the region. As we have mentioned earlier that the less developed States seem to be trapped in a low level of equilibrium trap. Therefore, in accordance with the egalitarian principle, it could be argued that the banks should have consciously made efforts through the distribution of their investments to ensure that the ratio of credit plus investment to bank deposits in the low income States reached at least the all States average. (Shukla & Roy Chowdhury, 1992, p. 269) However, nationalisation of the banking system (1969) was largely taken up to ensure that sectoral as well as regional diversification of credit and redeployment of bank finances that would eventually mitigate regional imbalance. (Shukla & Roy Chowdhury, 1992, pp. 267-72) In reality, however, in total disregard to the objective and commercial banks and the Centrally controlled financial institutions so far seem to have followed the principle of market.

The deposit mobilisation in a region is largely a function of the State income. Even though the better off States are in a position to mobilise larger quantum of deposit but there is always excess demand for credit over deposit mobilised in these regions. Which is on account of higher level of economic activities consequent upon large flow of private capital from the backward to the developed regions attracted by greater opportunity for profits. Such excess credit is often met by siphoning off deposits mobilised in the less developed region in order to meet the demand for excess credit of developed region. Quite naturally, less developed regions often show relatively excess deposit mobilisation over credit take-off due to low level of economic activities and hence low demand for bank credit in this region. Therefore, the question was legitimately raised that "as far as bank credit is concerned it can be given only in the states and regions where there is a demand for it. How can the banks pour in more credit than a region or state, it is argued, can absorb? But how will a region or state absorb more credit unless the banks themselves take steps to create conditions for that?" (George & Gulati, 1978, p. 1399)

Thus, set aside the debate regarding whether financial institutions should be guided by the objective of redressing regional disparities or it would follow the profit motive, it can be concluded from the above observation that in the Indian federal set up economic development of a particular State determines the volume of not only budgetary finance but also institutional finance. The latter has rather a distinctive tendency of discriminating the less developed States and seems to overlook equity consideration completely. Therefore, viewed against such omnipotent regressive tendency of institutional finance, any attempt of singling out a particular State for having faced discriminatory attitude from either Centrally controlled financial institutions or commercial banks does not seem to stand a ground. However, State specific problem of receiving institutional finance during the post-Left Front era of West Bengal will be dealt with in chapter 5 of the study in detail.

New Economic Policy and subsequent change in fiscal federal relations and regional imbalance

Since the inception of New Economic Policy (NEP) Indian economy has been undergoing several structural level changes which has considerable impact on Central as well as State government's finance and on the Centre-State financial relation as a whole. Regional imbalance seems to have aggravated further during 1990s as observed by different studies (Chakraborty, 1998; Chakraborty, 1999; Kurian, 1999; Ahluwalia, 2000) due to both the deterioration of quality of expenditure and the declining trend of revenue receipts of the Centre as well as the States.[105] Evidently, poor and middle income States appear to have been most hard hit by these structural changes compared to the better off ones.

During 1990s proceeds from taxes and duties of the Centre has been showing a considerable decline on account of the introduction of some reforms in the tax structure of India consequent upon NEP.[106] The Union

[105] The main reasons of declining share of revenue receipts of the States will be discussed in the chapter 6 in detail.

[106] Subsequent to the economic reforms in 1991 there has been a consistent increase in direct tax from about 2% of GDP in 1980s to about 3% in 1999, but a loss has taken place in the proceeds from indirect tax. So due to the overwhelming share of the indirect tax in the Indian economy, the recent increase in the revenue from direct tax is unlikely to compensate for loss of revenues from indirect tax. The cumulative consequences of these factors is likely to have an adverse effect on the proceeds from total Central tax revenue in

government's tax revenue as proportion of GDP has gone down from 10.7% in 1980 to 8.5% in 1998-99 while non-tax revenue remained at a constant level.(Different issues of Reserve Bank of India (RBI) Bulletin) Declining share of the proceeds from tax revenue coupled with stagnant non-tax revenue have had an adverse impact on the quality of expenditure of the Centre.[107] Moreover, continuous increase in revenue expenditure could not be matched with the slowing pace of revenue receipts and has resulted in increasing budgetary gap of the Centre. Consequently, the gap is being bridged by market borrowings. That, however, became more expensive on account of the ongoing reform of interest rate policies thereby escalating the interest rate liability and hence the revenue expenditure of the Centre further.[108]

State finances too have been undergoing significant deterioration since the late 1980s particularly after the inception of New Economic Policy. Until 1987-88 the States had surpluses in their revenue accounts but since then revenue deficit of the States started escalating and the revenue deficit

1990s compared to the pre-reform period. We have already dealt with this area in the preceding part (chapter 2) of this study.

[107] A constant growth of debt servicing payments have adverse consequences on their expenditure pattern. Non-Plan and non-developmental expenditure has been increasing while crowding out the revenue for capital expenditure thereby reducing the allocation of resources for necessary infra-structural development. The composition of total expenditure of Central government shows that non-developmental expenditure has been increasing dramatically during 1990. On the other hand developmental expenditure is showing sharp deceleration. Non-developmental expenditure has increased substantially from about 10% in the early 1980s to about 13% of GDP in 1999. However, in 1980s Plan expenditure of the Centre was kept considerably high at about 6.5% to 7% of GDP. Correspondingly capital expenditures of Central government were also kept at levels of 6% to 7% of GDP. But in contrast to the feature in 1980s, both capital expenditure and Plan expenditure have been showing steep decrease to the levels of about 4% of GDP or less in 1990s. (Rao, M.G, Linking Central Grants to Revenue Deficit Reduction by States', EPW, June 3, 2000, pp. 1884)

[108] A noteworthy feature of the domestic borrowing pattern of the Central government in 1990s is increased reliance on market borrowings with the high level of market related interest rates. In the late 1990s some changes in monetary policies was introduced which have made the cost of borrowings much higher for the Central government i.e., following the measures taken by the Reserve Bank of India in 1997 the Centre was no longer entitled to meet its deficit by creating money through ad hoc treasury bill. This measure compelled the Central government to meet its financing requirements from the market borrowings. Consequently, interest payment liability of the Centre has increased considerably from 2.2% of GDP in the early 1980s to about 4.7% in 1999.(Lahiri, A, Budget Deficits and Reforms', EPW, November 11, 2000, pp. 4050) increased from 2.6 per cent of GDP in 1990-91 to 3.7 per cent of GDP in 1999-00 (Rao, 2000, p. 1884). Implementation of the recommendation of the Fifth Pay Commission, (1997) by which salaries of the State government employees were brought at same parity with the Centre government's employees and hence increasing salary bill of the State governments, coupled with other exogenous factors consequent upon NEP (i.e., tax reforms measure and interest policy reform have already been mentioned) have been also responsible for bad fiscal health of the States' budget and deterioration in the quality of expenditure of the States.

The underlying pattern of the State expenditure in recent years is characterised by rising commitment on account of unproductive revenue expenditure mainly non-developmental and the steady deceleration in capital expenditure and hence capital formation. The growth of the revenue expenditure has severe consequences for Plan finances and on capital expenditure. In line with the Central government a major adjustment has been made in capital expenditure by the State governments. Capital expenditure of the States has been continuously declining from 5% of GDP in the early 1980s to about 3% in 1999. Thus, while the ratio of revenue to capital expenditure was about 70:30 in the early 1980s in early 2000 it is about 83:17 which reflects a significant deterioration in the quality of expenditure. (Mohan, 2000, p. 2035)

As a result of the stagnation in the Central tax revenues and increasing commitment for revenue expenditure the Finance Commission mandated tax revenue devolution has not increased during the 1990s and the Centre has been also unable to maintain growing tempo of the Central assistance in the form of loans and grants to the States provided by the Planning Commission. As percent of GDP, Central transfers to the States was reduced from 4.8 per cent in 1990-91 to 3.6 per cent in 1998-99. (Rao, 2000, p. 1884) The magnitude of the Central governments assistance to Central Plan has also experienced substantial decline. The percentage of the Central government's assistance to State Plans too declined from 12.8 per cent in 1992-93 to 11.1 per cent in 1997-98. (Saez, L, 1999, p. 329) The declining share of Central resources coupled with the stagnant tax/GDP ratio of the Sates (Different Issues of RBI Bulletin) and decreasing level of own non-tax revenue receipts tend to put the State in the situation of vicious circle.[109]

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[109] Since the increase in the States' expenditure was not matched by a corresponding increase in the revenue receipts of the States the gross fiscal deficit of the States has been rising sharply. The Gross Fiscal Deficit (GFD) is about 3% throughout in the 90s in comparison to 1.4% % in the 80s. (Soaring up State Finances, EPW, June 12, 1999, pp. 1468) The resource gap of the State budget is increasingly financed by the market borrowing. The interest rate policy reform and consequent deregulation of interest rate has made the market borrowing as well as borrowing from the Centre costly. Since the Central government has been resorting to market borrowings at market related high interest rate, the interest rate on the loan extended by it to the State governments have also been increased. As a result the average interest rate on the Central loans to the States has been rising from 5.50% in 1980-81 to 11.74% in 1996-97. On the other hand the interest rate subsidy from the Centre to the States has come down to 0.35% in 1996-

Furthermore, the ability of the States to finance their Plan expenditure have been deteriorating continuously from 50% between the mid-1950s and the late 1970s to only 40% or less in the late 1990s significantly reducing the ability of the State governments to invest in both social and physical infrastructure. (Mohan, 2000, pp. 2029) Understandably, the backward States, with lower capacity to finance their Plan expenditure had to rely more on Central assistance seem to be worst sufferers of the continuous decline in Central Plan assistance and overall low level of Central fiscal transfers. Therefore, reduced size of the Central Plan assistance, low level of total Central transfers coupled with declining ability to finance the Plan expenditure from their own resources affected the less developed States in recent years from many directions than the better of States. Low level of Plan and capital expenditure halted the growth of capital formation and hence the supply of infra-structural facilities and also left little money for social expenditures which resulted in low potential for attracting private as well as public investment in this regions.

Horizontal and vertical imbalances during the economic reform period

Ahluwalia (2000) reveals that the degree of the regional inequity was accentuated during 1990s compared to the previous decade. Estimated growth rates of State Domestic Product (SDP) in the 14 major States in the pre-reform period (1980-81 to 1990-91) and in the post-reform period (1991-92 to 1997-98) show that during the post-reform period the degree of dispersion in growth rates across the States increased very significantly. The range of variation in the growth rate of SDP in the 1980s was from a low of 3.6 per cent in Kerala to a high of 6.6 per cent in Rajasthan. But in the 1990s the variation was much larger, from a low of 2.7 per cent per year in Bihar to a high of 9.6 per cent in Gujarat. It is interesting to note that while the economy as a whole registered an increase in the growth

97 from 1.57% in 1991-92. Consequent upon all these measures the interest payment burden of the State governments has shown a steady rise from the average of 11% in the second half of 1980s to 17.7% in 1997-98 on account of both the market orientation of the State borrowing and reduction in the interest subsidies on Central government loans. However, not only the quantum of borrowing is increasing but also the cost of borrowing is increasing sharply which contributed to higher revenue expenditure and hence increase in revenue deficit. All this in turn compel the States to resort to market borrowing. State finance has been set in the path of vicious circle where more and more borrowed resources are being required to finance the revenue deficit which in turn would tend to increase the revenue deficit in the next phase.

rate of 5.55 percent per annum during the pre-reform period to 6.89 per cent during the post-reform period, the growth rate of some low income States i.e., Bihar, Uttar Pradesh and Orissa actually declined reflecting 'increased variation in growth performance across the States'. (Ahluwalia, 2000, p. 1638) (table 12 see Appendix)

Regional disparity has been increasing while there is a growing tendency of coefficient variation of Per Capita Net State Domestic Product (PCNSDP) since 1970s. Moreover, during the post-liberalisation period such disparity has been rising further. It is seen that the coefficient of variation of PCNSDP of different States has been steadily rising from 31.8 per cent in 1981-82 to 37.88 in 1991-92 and reaching the maximum of 43 in 1993-94 and then slightly decreased to 41.46 in 1994-95. (Ghosh & De, 1998, p. 3043)

Has Central transfers to the States accentuated regional imbalance further?

The distribution of tax transfers across the major States for the period between 1991 and 1999 is shown in table 13 (See Appendix). It is to be noted that the share of tax transfers to the high income States (Gujarat, Haryana, Maharastra, Punjab, Goa) from the Centre increased i.e., the percentage of transfer has increased from 14.2 per cent in 1991-92 to 14.9 per cent in 1998-99. On the other hand for the middle income States (Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, West Bengal) the percentage share of tax transfers decreased from 34.2 per cent in 1991-92 to 33.6 per cent in 1997-98 and then again slightly increased to 35.5 per cent in 1998-99. Contrary to that the poor income States (Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh) have experienced a declining share of Central transfers that has declined from 51.6 per cent in 1991-92 to 49.6 per cent in 1998-99. (Chakraborty, 1999, p. 3147)

In the case of grants also the inequality appears to be far more acute than that in tax transfers. It can be seen from table 14 (see Appendix) that during the above mentioned period the share of grants in the total transfers by the Centre to the high income States, except Goa, increased sharply from 14.8 per cent in 1991-92 to 22.5 per cent in 1998-99. For the middle income States also the share increased from 30 per cent in 1991-92 to 34.8 per cent in 1998-99. However the worst affected States were the low income category States. The share of grants of them in total Central grant transfers, declined from 55.2 per cent in 1991-92 to 42.7 per cent 1998-99. (Chakraborty, 1999, p. 3147)

However the average rate of growth of tax transfers and grants also indicates inequitable trend. It is evidenced from table 15 (see Appendix) that tax transfers grew at lower pace for the low income category States compared to the high income States. For the high income States viz. Gujarat and Karnataka the tax transfers grew at the rate of 35.9 and 16.7

per cent per annum respectively between 1992-93 and 1998-99 as against 15.7 percent for Bihar and 13.9 per cent for Orissa, both belong to the poorest category States. The annual average rate of growth of grants also was quite high in the high income States compared to the low income States. Two high income States namely Haryana and Gujarat registered 23.6 and 22.7 per cent growth per annum of grants whereas in the low income category States, Orissa and Rajasthan a rate of growth of grants was as low as 6.2 percent and 7.8 per cent per annum respectively during the same period. (Chakraborrty, 1999, p. 3148)

Conclusion

In sum it could be inferred that existing institutional mechanism for the transfers of resources from the Centre to the States are basically unjust and contains centripetal bias. Moreover, such institutional mechanism for the transfers of resources from the Centre to the States clearly discriminates against the poor and the middle income States in which West Bengal belongs to. Therefore, existing federal financial system of India did not actually discriminate against West Bengal as such but imposed uniform rules. On account of which West Bengal was not negatively discriminated against but the existing mechanism also does not permit positive discrimination in favour of the disadvantaged States including West Bengal. Thus, complaint against two multiple resource transfer institutions namely the Finance Commission and the Planning Commission and Centrally controlled financial institutions seems to have no validity in terms of State specific discrimination particularly directed against West Bengal rather it appears that such discrimination is a part of the regressive structure of the federal fiscal relations in India which has so far failed to minimise regional imbalance in the Indian federation.

Appendix

Table: 1
Aggregate Per Capita Budgetary Transfers, 1956-81 (Rs.)

States	Statutory	Plan	Discretionary	Total
A. High Income States				
Punjab	405	443	604	1452
Haryana	389	498	490	1377
Maharastra	461	291	397	1149
Gujarat	466	355	398	1219
West Bengal	524	314	486	1324
Group A	471	338	449	1258
B. Middle Income States				
Tamil Nadu	446	350	274	1070
Kerala	611	445	335	1391
Orissa	708	536	476	1720
Assam	742	675	659	2076
Karnataka	465	374	384	1223
Andhra Pradesh	504	427	381	1312
Group B	542	436	386	1364
C. Low Income States				
Uttar Pradesh	446	390	264	1100
Rajasthan	553	451	734	1738
Madhya Pradesh	428	434	248	1110
Bihar	456	363	318	1137
Group C	459	398	332	1189
D. Special Category States				
Group D	1701	1902	1086	4689
All States	516	440	380	1336

Source: : George, K.K & Gulati, I.S, Centre-State Resource Transfers, 1951-84: An Appraisal, EPW, February 16, 1985, p. 292

Table: 2
Ranking of States According to Combined Scores Between 1960-61 and 1986-87

State	1960-61	1970-71	1980-81	1984-85	1986-87
Andhra Pradesh	11	9	9	8	8
Assam	4	11	14	14	13
Bihar	15	15	15	15	15
Gujarat	7	4	4	3	3
Haryana	2	3	2	2	2
Karnataka	6	7	7	6	5

Kerala	10	8	8	10	7
Madhya Pradesh	12	13	11	11	11
Maharastra	5	2	3	4	4
Orissa	14	14	13	13	14
Punjab	1	1	1	1	1
Rajasthan	9	10	10	9	10
Tamil Nadu	8	6	5	5	6
Uttar Pradesh	13	12	12	12	12
West Bengal	3	5	6	7	9

Source: Sarker, P.C, 'Regional Imbalances in Indian Economy Over Plan Periods', EPW, March 12, 1994, p. 623

Table: 3
Revenue From State Sources Between 1961-62 & 1968-69
(Rs. Crores)

State	1961-62	1968-69	Percentage increase
Bihar	79.81	166.26	208.35
Gujarat	62.70	157.81	251.69
Haryana	24.27	74.56	*
Madhya Pradesh	78.31	171.80	219.38
Maharastra	118.75	356.76	300.42
Punjab	77.96	126.00	**
Uttar Pradesh	153.99	363.12	235.80
West Bengal	101.70	214.29	210.70
Andhra Pradesh	85.77	203.53	237.29
Assam	40.36	93.20	230.92
Kerala	52.93	132.02	249.42
Orissa	46.13	121.03	262.36
Rajasthan	46.21	129.59	280.43
Uttar Pradesh	153.99	363.12	235.80
Tamil Nadu	92.18	277.28	300.80

Source: Fifth Finance Commission, 1969, pp. 129-134
***, ** Haryana and Punjab was single State hence not comparable**

Table: 4
State-Wise Indices of Per Capita Plan Expenditure From First Plan to Fifth Plan

States	I Plan	II Plan	III Plan	Annual Plans	IV Plan	V Plan
Punjab	446	286	236	150	230	206
Haryana	--	--	--	152	261	190
Maharastra	118	112	114	138	145	148
Gujarat	136	147	120	140	149	145
West Bengal	138	94	89	65	60	79
Karnataka	87	122	111	117	93	104
Tamil Nadu	77	112	109	118	98	79
Kerala	67	116	112	122	115	88
Rajasthan	103	104	108	93	88	94
Andhra Pradesh	90	102	101	97	72	95
Madhya Pradesh	87	94	93	73	83	97
Uttar Pradesh	67	67	80	88	96	93

Orissa	141	106	135	102	83	82
Bihar	67	78	74	67	62	59
All States	100	100	100	100	100	100

Source: Ansari, M.M, ' Financing of the State's Plans A perspective for Regional Development, EPW, December 3, 1983, p. 2078

Table: 5
Per Capita Cumulative Plan Outlays Between 1960-61 & 1986-87
(Rs.)

States	1960-61	1970-71	1980-81	1984-85	1986-87
High Income States					
Maharastra	94	341	1147	1955	2313
Gujarat	134	391	1217	2094	2598
Haryana	168	390	1352	2277	2809
Punjab	168	421	1287	2240	2784
Sub Total					
Middle Income States					
Andhra Pradesh	85	276	762	1231	1458
Karnataka	108	329	894	1377	1523
Kerala	80	294	829	1279	1396
West Bengal	102	244	715	1185	1371
Tamil Nadu	85	297	752	1303	1662
Sub Total					
Low Income States					
Bihar	65	200	548	919	942
Madhya Pradesh	82	243	795	1352	1655
Orissa	110	329	808	1218	1277
Uttar Pradesh	57	221	719	1148	1340
Rajasthan	92	293	812	1259	1457
Sub Total					
Average	101.07	304.93	895.07	1467.80	1722.40

Source: Sarker, P.C, 'Regional Imbalances in Indian Economy Over Plan Periods', EPW, March 12, 1994, p. 622

Table: 6
State-Wise Indices of Per Capita Central Assistance From First Plan to Fifth Plan

States	I Plan	II Plan	III Plan	Annual Plans	IV Plan	V Plan
Punjab	633	323	328	115	128	122
Haryana	--	--	--	114	129	139
Maharastra	58	77	75	71	81	73
Gujarat	79	100	86	91	96	82
West Bengal	167	85	79	79	83	84
Karnataka	96	115	119	118	97	89
Tamil Nadu	58	112	100	94	81	96
Kerala	71	92	128	132	136	115
Rajasthan	150	119	143	144	140	117
Andhra	79	108	109	118	91	118

Pradesh						
Madhya Pradesh	92	119	119	112	103	93
Uttar Pradesh	54	65	87	88	105	113
Orissa	208	154	140	121	121	132
Bihar	58	73	83	82	98	92
All States	100	100	100	100	100	100

Source: Ansari, M.M, ‘ Financing of the State’s Plans A perspective for Regional Development, EPW, December 3, 1983, p. 2078

Table: 7
Indices of Per Capita State’s Own Resources for the Plan From First Plan to Fifth Plan

States	I Plan	II Plan	III Plan	Annual Plans	IV Plan	V Plan
Punjab	147	248	103	106	308	254
Haryana	--	--	--	162	358	219
Maharastra	213	148	170	227	200	191
Gujarat	227	196	154	204	185	177
West Bengal	93	104	103	46	43	77
Karnataka	73	128	100	115	91	112
Tamil Nadu	107	112	122	335	110	69
Kerala	60	140	89	108	99	74
Rajasthan	27	88	57	27	49	82
Andhra Pradesh	107	96	89	69	57	88
Madhya Pradesh	80	68	57	23	68	99
Uttar Pradesh	87	68	70	88	90	82
Orissa	33	56	127	77	56	54
Bihar	80	48	62	46	35	41
All States	100	100	100	100	100	100

Source: Ansari, M.M, ‘ Financing of the State’s Plans A perspective for Regional Development, EPW, December 3, 1983, p. 2078

Table: 8
Per Capita Central Assistance and Per Capita Plan Outlay during the Sixth and Seventh Plan

States	Central assistance as proportion of total Plan outlay (Per cent)		Per capita Plan outlay (Rs.)	
	VI Plan	VII Plan	VI Plan	VII Plan
	(1)	(2)	(3)	(4)
Low Income States	33.05	38.12		
Andhra Pradesh	30.15	34.23	713	1,195
Bihar	43.88	50.17	572	905
Madhya Pradesh	26.21	24.15	912	1,681
Kerala	28.51	51.93	726	984
Orissa	45.03	40.65	684	1,230
Rajasthan	32.44	44.07	786	1,164
Tamil Nadu	22.12	25.86	765	1,396
Uttar Pradesh	36.10	33.90	662	1,183

High Income States	15.17	18.21		
Gujarat	12.19	13.84	1,378	2,247
Haryana	12.21	12.88	1,793	2,889
Karnataka	21.22	26.44	773	1,195
Maharastra	12.41	13.39	1,225	2,083
Punjab	13.92	13.28	1,444	2,424
West Bengal	19.11	29.43	790	931

Source: Ramalingom, R & Kurup, K.N, 'Plan Transfers to States Revised Gadgil Formula: An Analysis', EPW, March 2-9, 1991, p. 504

Table: 9
Approved and Actual Plan Expenditure for the Sixth and Seventh Plan
(Rs. crore)

States	6th Plan (Approved)	6th Plan (Total Actual)	Percentage shortfall in 6th Plan	7th Plan (Approved)	7th Plan (Total Actual)	Percentage shortfall in 7th Plan
Andhra Pradesh	3100	2331	24.80	5200	4871	6.3
Bihar	3225	2159	33.1	5100	4981	2.3
Gujarat	3680	2829	23.2	6000	4292	28.5
Haryana	1800	1148	36.2	2900	2078	28.3
Karnataka	2265	1938	14.4	3500	3115	11.0
Kerala	1550	1209	22.0	2100	1773	15.6
Madhya Pradesh	3800	2814	25.9	7000	5711	18.4
Maharastra	6175	4740	23.2	10500	8894	15.3
Orissa	1500	1140	24.0	2700	2716	-0.6
Punjab	1957	1384	29.3	3285	2850	13.2
Rajasthan	2025	1572	22.4	3000	2550	15.0
Tamil Nadu	3150	2602	17.4	5750	5072	11.8
Uttar Pradesh	5850	4738	19.0	10447	8982	14.0
West Bengal	3500	1787	48.9	4125	3547	14.0
Assam	1115	928	16.7	2100	2101	Nil
All States	47204	35334	25.1	78097	69259	11.3

Source: Bagchi, A & Sen, T, ' Budgetary Trends and Plan Financing in the States', in Bagchi, A & Bajaj, J.L, & Byrd, W.A (ed.) State Finances in India, Vikas Publishing House Pvt. Ltd., New Delhi, 1992, p.56

Table: 10
Financing Pattern of the Eighth Five Year Plan (1992-97)

States	Projected Outlay				Realised Outlay			
	Total outlay (Rs. Crore at 1991-92 prices	Percentage share of Central assistance	Percentage share of own funds of the States	Percentage share of borrowings of the States	Total outlay (Rs. Crore at 1991-92 prices	Percentage share of Central assistance	Percentage share of own funds of the States	Percentage share of borrowings of the States
High Income States								

Goa	761	28.3	24.9	46.9	701	28.5	37.1	34.4
Gujarat	11500	19.1	41.9	39.1	9319	20.1	23.4	56.5
Haryana	5700	17.3	37.4	45.3	3802	26.5	6.7	66.8
Maharastra	18520	16.5	31.4	52.4	22692	21.8	44.4	33.9
Punjab	6570	139.4	(-) 80.7	41.3	5277	62.6	(-) 36.6	74.0
Middle Income States								
Andhra Pradesh	10500	45.2	4.4	50.4	10966	50.7	(-) 4.7	54.1
Karnataka	12300	23.6	44.8	31.6	11604	20.9	34.1	66.8
Kerala	5460	44.2	(-) 26.6	82.4	6712	31.6	5.4	63.0
Tamil Nadu	10200	55.5	(-) 5.1	49.6	10655	39.3	5.0	55.7
West Bengal	9760	96.1	(-) 68.2	72.1	6519	54.5	(-) 65.1	110.8
Low Income States								
Bihar	13000	43.4	5.1	51.5	4712	97.2	(-) 74.1	76.9
Madhya Pradesh	11100	30.8	17.5	51.7	9886	33.3	15.2	63.0
Orissa	10000	43.2	16.7	40.1	5076	49.1	(-) 17.1	68.1
Rajasthan	11500	36.4	19.1	44.5	8810	39.2	(-) 15.1	75.9
Uttar Pradesh	21000	54.2	(-) 22.8	68.5	15778	58.3	(-) 30.7	72.4
Total 15 States	157871	40.6	6.4	53.0	132519	39.4	1.6	59.0

Source: Kurian, N.J, 'State Government Finances A Study of Recent Trends', EPW, May 8, 1999, p. 1118

Table: 11
Per Capita Centre-State Institutional Financial Flows During 1973-80 and 1969-76

(Rs.)

States	Commercial Banks (1973-80)			Total institutional finance (1973-80)	Commercial Banks (1969-76)			Total institutional finance (1969-76)
	Credit	Investment	Total		Credit	Investment	Total	
A. High Income States								
Punjab	734	42	776	941	346	47	393	482
Haryana	446	74	520	756	186	56	242	387
Maharastra	610	49	667	848	308	41	349	460
Gujarat	323	69	392	638	164	51	215	348
West Bengal	321	49	370	449	146	38	184	234
Group A	472	54	526	690	227	43	270	366
B. Middle Income States								
Tamil Nadu	327	38	365	481	203	46	249	336
Kerala	316	69	385	466	117	40	157	213
Orissa	85	35	120	169	24	31	55	99
Assam	92	40	132	173	40	25	65	106
Karnataka	315	34	349	506	195	38	233	313
Andhra Pradesh	213	30	243	347	82	28	110	156
Group B	244	38	282	382	124	36	160	222
C. Low Income States								
Uttar Pradesh	121	28	149	214	62	20	82	118
Rajasthan	168	51	219	305	56	32	88	146
Madhya	111	27	138	196	39	18	57	93

Pradesh								
Bihar	83	26	109	52	38	18	56	91
Group C	115	30	145	205	50	20	70	109
D. Special Category States								
Group D	125	80	205	265	45	38	83	128
All States	252	40	293	393	121	32	153	215

Source: For the year 1973-80 see George, K.K & Gulati, I.S, Centre-State Resources Transfers, 1951-84: An Appraisal', EPW, February 16, 1985, p. 294; For the year 1969-76 see Gulati, I.S & George, K.K, " Inter-State Redistribution through Institutional Finance", EPW, Special Number August, 1978, p. 1395

Table: 12
Annual Rates of Growth of Gross State Domestic Product (SDP) From 1980-81 to 1990-91 and From 1991-92 to 1997-98

States	1980-81 to 1990-91 (per cent per annum)	1991-92 to 1997-98 (per cent per annum)
Bihar	4.66	2.69
Rajasthan	6.60	6.54
Uttar Pradesh	4.95	3.58
Orissa	4.29	3.25
Madhya Pradesh	4.56	6.17
Andhra Pradesh	5.65	5.03
Tamil Nadu	5.38	6.22
Kerala	3.57	5.81
Karnataka	5.29	5.29
West Bengal	4.71	6.91
Gujarat	5.08	9.57
Haryana	6.43	5.02
Maharastra	6.02	8.01
Punjab	5.32	4.71
Combined SDP of 14 States	5.24	5.94

Source: Ahluwalia, M, S, Economic Performance of States in Post-Reforms Period EPW, May 6, 2000, p. 1638

Table: 13
Distribution of Tax Transfer Across Non-Special Category States From 1991-92 to 1998-99 (per cent)

	1991-92	1992- 93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Higher Income States								
Goa	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3

Gujarat	**2.1**	**4.5**	**5.0**	**4.4**	**4.4**	**3.8**	**4.5**	**4.4**
Haryana	**1.5**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.5**	**1.5**
Maharastra	**8.2**	**7.7**	**7.8**	**7.8**	**6.4**	**7.3**	**7.1**	**7.0**
Punjab	**2.0**	**1.9**	**1.9**	**1.9**	**1.7**	**1.7**	**1.7**	**1.7**
Group Total	**14.2**	**15.9**	**16.5**	**16.0**	**14.2**	**14.5**	**15.1**	**14.9**
Middle Income States								
Andhra Pradesh	**8.7**	**8.5**	**8.5**	**8.6**	**9.8**	**9.4**	**8.9**	**8.8**
Karnataka	**5.3**	**5.1**	**5.1**	**5.2**	**5.5**	**5.6**	**5.7**	**5.6**
Kerala	**3.9**	**3.8**	**3.8**	**3.8**	**4.0**	**4.0**	**4.0**	**4.6**
Tamil Nadu	**8.0**	**7.8**	**7.8**	**7.9**	**6.9**	**7.0**	**6.9**	**7.2**
West Bengal	**8.3**	**8.1**	**8.1**	**8.2**	**7.7**	**7.8**	**8.0**	**9.3**
Group Total	**34.2**	**33.2**	**33.4**	**33.6**	**34.1**	**33.7**	**33.6**	**35.5**
Low Income States								
Bihar	**12.9**	**12.5**	**12.6**	**12.7**	**13.4**	**13.1**	**12.9**	**13.0**
Madhya Pradesh	**8.7**	**8.4**	**8.5**	**8.5**	**8.4**	**8.5**	**8.6**	**9.4**
Orissa	**5.6**	**5.5**	**5.4**	**5.4**	**4.9**	**5.0**	**5.1**	**5.1**
Rajasthan	**6.0**	**5.9**	**5.8**	**5.9**	**5.7**	**5.7**	**5.8**	**6.8**
Uttar Pradesh	**18.4**	**18.6**	**17.9**	**18.0**	**19.3**	**19.5**	**18.6**	**15.4**
Group Total	**51.6**	**50.9**	**50.2**	**50.4**	**51.8**	**51.8**	**51.2**	**49.6**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Chakraborty, P, Recent Trends in State Government Finances A comment, EPW, October 30, 1999, p. 3147

Table: 14
Distribution of Grants Across Non-Special Category States from 1991-92 to 1998-99
(Per Cent)

	1991-92	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**
High Income States								
Goa	**0.5**	**0.5**	**0.4**	**0.5**	**0.6**	**0.5**	**0.3**	**0.2**
Gujarat	**3.0**	**3.7**	**4.7**	**4.3**	**3.7**	**5.8**	**4.7**	**5.3**
Haryana	**1.6**	**1.6**	**1.8**	**1.5**	**2.3**	**2.3**	**2.9**	**3.4**
Maharastra	**7.4**	**7.1**	**9.0**	**7.3**	**8.9**	**10.3**	**9.1**	**8.9**
Punjab	**2.1**	**2.7**	**2.2**	**2.0**	**2.4**	**2.5**	**3.9**	**4.7**
Group Total	**14.8**	**15.5**	**18.0**	**15.6**	**17.8**	**21.3**	**20.8**	**22.5**
Middle Income States								
Andhra Pradesh	**8.7**	**8.0**	**9.1**	**8.3**	**12.1**	**11.9**	**8.4**	**9.2**
Karnataka	**4.3**	**4.5**	**5.0**	**5.0**	**4.5**	**5.3**	**7.6**	**8.1**

Kerala	**3.4**	**3.5**	**3.3**	**4.6**	**3.6**	**3.3**	**4.4**	**3.7**
Tamil Nadu	**6.7**	**6.3**	**6.6**	**6.3**	**6.0**	**6.3**	**5.5**	**5.4**
West Bengal	**6.9**	**6.8**	**7.2**	**7.2**	**6.8**	**7.7**	**7.5**	**8.4**
Group Total	**30.0**	**29.1**	**31.2**	**31.3**	**32.9**	**34.5**	**33.4**	**34.8**
Low Income States								
Bihar	**10.0**	**10.2**	**9.9**	**8.6**	**7.6**	**4.4**	**8.2**	**6.3**
Madhya Pradesh	**8.5**	**8.6**	**8.6**	**9.1**	**8.8**	**8.8**	**9.5**	**9.4**
Orissa	**6.3**	**5.8**	**5.7**	**5.9**	**6.5**	**6.1**	**5.8**	**5.2**
Rajasthan	**8.7**	**8.2**	**8.6**	**10.3**	**8.8**	**8.9**	**7.9**	**7.8**
Uttar Pradesh	**21.7**	**22.6**	**18.0**	**19.2**	**17.6**	**15.9**	**14.5**	**14.0**
Group Total	**55.2**	**55.4**	**50.8**	**53.1**	**49.3**	**44.1**	**45.8**	**42.7**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Chakraborty, P, Recent Trends in State Government Finances A comment, EPW, October 30, 1999, p. 3147

Table : 15
Annual Average Rate of Growth Tax Transfer And Grants
Between 1992-93 and 1998-99
(Per Cent)

States	**Tax Transfers**		**Grants**
Gujarat	**35.9**	**Punjab**	**26.6**
Kerala	**18.7**	**Haryana**	**23.6**
Rajasthan	**17.8**	**Gujarat**	**22.7**
West Bengal	**17.6**	**Karnataka**	**22.4**
Madhya Pradesh	**16.8**	**Maharastra**	**13.8**
Karnataka	**16.7**	**Kerala**	**13.5**
Haryana	**15.9**	**West Bengal**	**13.0**
Andhra Pradesh	**15.9**	**Bihar**	**11.8**
Bihar	**15.7**	**Madhya Pradesh**	**11.3**
All States	**15.6**	**Andhra Pradesh**	**11.1**
Orissa	**13.9**	**All States**	**9.5**
Tamil Nadu	**13.8**	**Rajasthan**	**7.8**
Punjab	**13.2**	**Tamil Nadu**	**6.3**
Maharastra	**13.2**	**Orissa**	**6.2**
Uttar Pradesh	**13.0**	**Uttar Pradesh**	**3.0**
Goa	**11.7**	**Goa**	**-4.5**

Source: Chakraborty, P, Recent Trends in State Government Finances A comment, EPW, October 30, 1999, p.3148

Chapter: 5

Parameters of Discrimination as Alleged by the Left Front Government

Anti-Centre movement had taken two different forms in West Bengal during the post-Left Front era. One is related to the demand for institutional change of the existing federal structure of India for providing more power both economic and administrative to the States. The other was related to the complaint of State specific discrimination. The State, so far has insisted that West Bengal has been subject to deliberate discrimination by the Centre and the Centrally controlled financial institutions compared to the other richer States in terms of some economic indicators due to its political opposition. This according to the Left Front government, is the main cause for relative economic underdevelopment in West Bengal.[110]The allegation mainly comprises low level of credit deposit ratio, low level of financial assistance by the Centrally controlled financial institutions, low level of Plan assistance hence low level of Plan outlay, insignificant number of issuing industrial licenses compared to the other States and some project specific factors regarding which West Bengal was also said to be deliberately discriminated.[111] However, we have already observed in the preceding part

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[110] "It is alleged by many that the Central Government is discriminating against West Bengal in respect of issuing of industrial licence, sanctioning credit, public investment, expansion of development of infra-structural facilities etc. The Communist Party of India (Marxist) i.e., CPI (M), especially of West Bengal charged the Union Government for colonial treatment towards this State." (Basu, K, West Bengal Economy Past Present and Future, Firma KLM, Pvt. Ltd., Calcutta, 1989, p. 9)

"In various review of its own performance, the Left Front government repeatedly emphasised that the unfair policies of the central government caused the weak performance in industrial production and employment". (Pedersen, J,D, "India's Industrial Dilemmas in West Bengal", Asian Survey, Vol. XLI, No.4, July/August, 2001, p. 656) "Whenever the industrial stagnation of the state was discussed, the standard explanation given by the Left Front government and the CPI(M) became the purported discrimination West Bengal suffered from the central authorities in New Delhi." (ibid., 2001, p. 650)

[111]The incident of setting up of Haldia Petrochemical complex in the State and the reluctance shown by the Centre to approve the project for long time has given rise to major dis-satisfaction in West Bengal. Other aspects related to the following areas also created much contention. The Centre denied to nationalise sick industries in West Bengal despite its plea to the Centre; sick industries in West Bengal were denied adequate support for their revival by the Centre; West Bengal failed to receive appropriate financial support for modernisation of the old industrial units; and non-co-operation of the Centre while establishing new units in West Bengal. Along with these some policies were taken by the Centre which lowered the employment opportunities in West Bengal considerably and caused severe shortages of essential raw materials required for industrial production in West Bengal whose supply is controlled by the Centre. Such project specific factors were analysed in detail in the study undertaken by Ray & Sato (1987). Since such project specific areas are beyond the purview of this study, it is really difficult to say to what proportion it is the reflection of hostilities shown by the Centre, regarding issues mentioned above as alleged in the study and to what proportion it has been the outcome of several constraints pre-existing in West Bengal's economy and society and to what proportion they are part of general Central policies which apply for all the States and not for West Bengal exclusively.The change of attitude of the Centre on nationalisation of sick industries, or providing resources for modernisation of loss making industrial units may be mentioned.

of the study that regressive structure of the Indian federation and hence the ever widening regional disparities tend to create such inequality among the States in general. Now it remains to be seen whether existing regressive federal structure coupled with State (West Bengal)-specific structural constraints which was partly the legacy of the pre-Independence as well as the post-Independence period play any role in accentuating further the problem of low share of industrial licence, low level of financial assistance and low level of Plan outlay allocation to the States.

Industrial licensing policy

The complaint launched by the Left Front government as regards distribution of industrial license among the States could be summarised as follows: "application for establishment of industries in West Bengal are without reasons delayed by the Central Government. Industrial Licences (IL) and Letter of Intents (LOI) are not easily issued to prospective entrepreneurs who are willing to set up industrial units in this State .... There are cases when the applications for the establishment of an industry in West Bengal was rejected, but if the entrepreneur applied afresh for the setting up of the same industry in any other State, the application was sympathetically considered and licence issued." (Basu, K, 1989, pp. 10-11)

However, since the mid-1960s declining number of issuing industrial licences to West Bengal seem to have become one of the major contentious issues. For some people economic decline of West Bengal

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Until the early 1980s Central government extended active co-operation with IRBI, IRCI, IDBI, RBI in reviviving sick industries. But in course of time it was felt that the sick industries themselves should take some responsibility instead of the easy recourse to the Central or State governments or the Centrally controlled financial institutions as the causes of sickness lie more often in the incompetence and inefficiency of industries than other factors. However, Sick Industrial Companies (Special Provision) Act (SICA) was introduced in 1985 in order to provide a definition sickness for the industries. Therefore revival of these industries now be dealt with more effectively than before. Over time it was noticed that take over by governments either the States or the Central were increasingly proving failure to help these sick industries. More importantly, after such take over, it was noticed instead of improving, over time the situation of these industries got worsened accumulating huge amount of cumulative loss. Consequently Board of Industrial and Financial Reconstruction (BIFR) was set up which started its work in 1987 in order to deal with sick industries through detailed investigation into the reason of sickness before the industry is entitled to receive any financial help. Hence, the notion of mothering sick industries at the cost of government's finance changed since the late 1980s the process of which started in theearly 1980s. Against this backdrop, it is difficult to infer to what extent the discrimination by the Central government by dint of not providing adequate help to modernise obsolete technologies and taking over sick industries is applicable only to West Bengal. How far growing number of sick industries in West Bengal lies in the very structure of the State's industrial situation which has been in existence since the late 1960s and how far it is also West Bengal government's failure to mobilise its own resources efficiently so that proper infrastructural facilities be provided and would create the environment for the running of the existing industries efficiently and provide conducive situation for attracting new investment into this region.

went hand in hand with the total number of industrial licence issued to the State i.e., while some wanted to see it as a reflection of economic downturn, for others it simply was a discriminatory policy pursued by the Centre. Another kind of argument was, however, related to overall regional inequality. Viewed against this broader perspective, it was argued that West Bengal along with other industrially developed States managed to secure major portion of the industrial licence while leaving the less developed States in India with insignificant share of industrial license.

Bengal National Chamber of Commerce and Industry (BNCCI) (1965) expressed their concern over the fact that West Bengal's economy had been showing downturn in terms of different criteria such as number of registered factories, number of person employed in registered factories, amount of capital invested etc. Evidently, West Bengal started losing its pace not only compared to the other States but also compared to its own standard achieved in the past (BNCCI, 1965, p. 169) which is evident from continuously decreasing number of licences issued to the State since 1960. Seemingly, "there has been going on all the time considerable exodus of capital from West Bengal". (BNCCI, 1965, p. 169) Against the backdrop of this sharp deterioration of industrial situation and declining share of industrial licence, it was also argued, how far such continuous decline of industrial licence issued to West Bengal would be interpreted in terms of concerted move of discriminating against the State by the Central Licensing Authority. It is highly probable that the very large differences between the figures of licences issued to firms in Maharastra and in West Bengal is largely due to lesser number and lower value of applications submitted by firms in this State. (BNCCI, 1965, p. 24). Thus total number of applications for industrial licences in case of Maharastra and West Bengal during 1956-66 was 3645 and 2296 respectively. And total number of licenses issued to Maharastra and West Bengal was 2741 and 1649 respectively during the same period. (Dasgupta, 1998, p. 3051) Therefore the percentage share of number of applications submitted during 1956-66 to West Bengal was 16.30 as against 25.88 per cent for Maharastra. But percentage share of industrial licences issued to West Bengal was 16.46 as against 27.37 per cent for Maharastra. Evidently, though the proportion of total licence issued to total applications of licences submitted was higher in case of both Maharastra and West Bengal but the margin of favour was higher in Maharastra than West Bengal (table 1 & 2, see Appendix)

It was in this context that the Bengal Chamber of Commerce and Industry (BCCI) (1971) felt that though it is true that the margin of favour was higher in case of not only Maharastra (25. 88 to 27.37) but also the other four advanced States such as Gujarat (8.66 to 8.89), Mysore (2.98 to 3.26) and Tamil Nadu (8.97 to 9.68) compared to West Bengal (16.30 to 16.46). Nevertheless, "...viewed in the national context, West Bengal can not really complain of unfavourable discrimination against herself in this matter" (BCCI, 1971, p. 144) while the proportion of total number of applications to total number of licence issued was much lower in case of the other industrially less developed States such as Andhra Pradesh (3.56 to 3.31), Assam (1.08 to 0.95) Madhya Pradesh (2.85 to 2.47) and so on. (table 2)

In contrast Roy (1971) looked at the question of declining share of industrial licences as evidence of discrimination against the State by the Central Licensing Authority and vehemently accused the Centre for the present economic downturn of West Bengal. (Roy, 1971, pp. 51-56). B. M. Birla, owner of one of the leading business houses of India while addressing New Delhi Press Club in June, 1970, also said that the government of India was mainly responsible for the lack of growth of industries in West Bengal. The Central government, he alleged, did not provide license to West Bengal on the plea that the State was already industrially developed. But the Centre did not apply the same yardstick to Maharastra in the matter of industrial licences. (quoted in Roy, 1971, p. 51)

However, such allegation of discrimination made against West Bengal in the pre-Left Front era also came to the fore by the Congress government during the early 1970s. Siddhartha Sankar Roy, the then Chief Minister of West Bengal made similar allegation against the Centre in the matter of issuing license to West Bengal. In a meeting with the Chamber of Commerce in Calcutta on June 18, 1974, Mr. Roy alleged that the whole of eastern region was neglected and the Centre was discriminating against the region, particularly West Bengal. (Basu, 1989, p. 9)

Different studies undertaken during 1960s dealing with the problem of unequal distribution of industrial licences among the States, however, argued that industrial licensing policy instead of following the path of a equal industrial development seems to have widened the disparity among the States by favouring the more industrially developed States in issuing licences liberally compared to the other States. Even the regulation & control over industrial development has not proved to be an efficient instrument in lessening regional disparities in development. Consequently, concentration of private investment in a few industrial centres of the country became a major problem. “According to the report of the Monopolies Enquiry Commission (1965) there are altogether 533 factories under the 75 leading industrial business houses of the country of which 288 or more than 54 per cent were located in three States i.e., West Bengal (152), Maharastra (71) and Tamil Nadu (65). Even in these States there was an extreme concentration of units in major cities. Calcutta accounted for 76 and Bombay-Thana for 49.” (Thavraj, 1978, p. 131) As evident from table 3 (see Appendix) Maharastra & West Bengal seem to have absorbed nearly 44 per cent of the total license issued during 1952-1967 i.e., out of total licence of 11268 during 1952-67 West Bengal and Maharastra managed to receive 4938 hence 44 per cent. And about 36 percent of the total capital investment until the late 1960s. (Report of the Taxation Enquiry Committee, Government of Kerala, 1969, p. 26)

However, it is worth noting in this connection that although few pockets of industrially developed centres such as West Bengal, Maharastra and Tamil Nadu seem to have absorbed the major share of industrial licence, the position of West Bengal taken separately clearly shows that the share of licence had been on a continuous decline compared to Maharstra not only since the early 1960s but also even during 1952-57 when West Bengal ranked first almost all economic indicators. Thus the share of industrial licence of West Bengal (379) during 1952-57 was considerably lower than Maharastra (504) and remained constantly low throughout the 1960s (table 3 see Appendix). The reason behind this is not difficult to seek. As we have mentioned in the preceding part of the this study that structural constraints operating on the economy of West Bengal since the pre-Independence period had a retarding effect on West Bengal's industrial development as a whole from the very outset.

In this connection Bengal Chamber of Commerce and Industry (BCCI) (1975) in their later study emphasised on certain structural handicaps of the industrial base[112] of West Bengal which posed considerable difficulties in obtaining industrial licence. As they felt that there is a lack of entrepreneurship in West Bengal combined with several institutional and structural constraints which led to the overall stagnation in the State's industrial scenario. Therefore, a kind of vicious circle has developed in West Bengal wherein stagnation discourages entrepreneurship which further accentuates stagnation. That is why special effort is required to be taken for breaking up this circle. The Bengal Chamber of Commerce and Industry (1975) alleged that generous granting of industrial license to West Bengal could have helped to provide incentives for setting up more industries in this region. But industrial licensing policy so far did not play this supportive role. On the contrary, it was being quite discouraging in granting license to West Bengal.[113] (BCCI, 1975, p. 49).

As regards the other structural handicaps, dominance of large business houses in West Bengal have also had a retarding effect on the economy of

[112] Bengal Chamber of Commerce and Industry (1975) admitted that the State has narrow base of enterprise with over concentration of industrial base in the few industries and also centred on CMDA area of the State. The three major industries of jute, tea and engineering employing about 89 per cent of the industrial labour force. Therefore, the industrial structure of the State lacks resilience and adaptability. Moreover, it has been suffering from lack of diversification, technological bottlenecks and lack of local investor's involvement which resulted in industrial stagnation and made it more recession prone than other States. (West Bengal-Travail Continues, Bengal Chamber Commerce and Industry, 1975, p. 58)
The government of West Bengal while submitting the memorandum before the Sixth Finance Commission also mentioned that the so called traditional industries of West Bengal like jute, tea, coal mining and structural engineering with railway ancillaries have a low growth potential as compared to modern industries like chemical, electronics and petro-chemical industries, etc. In addition to that these industries was faced the problems of acute shortage of raw materials many of which was under the control of the Centre and also infra-structural materials like iron and steel, cement, wagons, transport, vehicles power etc. (Memorandum to the Sixth Finance Commission, GOWB, 1973, p.16)Therefore, the complaint of discrimination made by West Bengal regarding allocation of inadequate raw materials to the State (See Ray & Sato, 1987, p. 144) was in existence much before the Left Front came to power.

[113] "Therefore it is seen that the licensing policy, far from encouraging industry in West Bengal, is on the contrary, putting needless difficulties in the way of even well established units. This unrealistic policy has inhibited the industrial growth of the State with its consequent effect on employment potential." (BCCI, 1975, p. 51)

West Bengal and made it difficult to receive licence.[114] For historical reasons most of these monopoly houses dominated the scene in West Bengal and large scale industrial sectors in West Bengal had always been run mainly by a few big business houses and international companies. Later on introduction of Monopolies and Restrictive Trade Practices Act (MRTP) 1970 with the objective of putting restrictions on the growth of the such large monopoly houses had further inhibiting effects on industries in West Bengal.[115] Obviously, constraints on their growth and expansion leads to constraints on the growth of industry of the State in general[116].(BCCI, 1975, pp. 51-52) As early as in the late 1960s the former Chief Minister, Ajoy Kumar Mukerjee, had made the plea that since at least 13 of 20 the then listed monopoly houses were based in Calcutta they should be offered some relaxation so far as investment within the State is concerned. But the plea was turned down by the government of India.("Wooing Industrialists", EPW, June 12, 1982)

The Chief Minister of West Bengal during the Left Front rule (Jyoti Basu) also made a similar plea and it was complained that the Centre was having a discriminatory attitude in this regard. While the Centre tended to be more liberal in allowing Monopoly and Restrictive Trade and Practices (MRTP) and Foreign Exchange Regulation Act (FERA) companies to set up new industries in other States. But when it come to West Bengal the Centre seemed to be too strict too follow the rules. ("Wooing Industrialists", EPW, June 12, 1982)

Of all structural constraints in obtaining licences lack of regionally committed industrialists of the State seems to play big role in its failure to influence government policies on distribution of licenses among the States. (BCCI, 1975; Dasgupta, 1998; Pedersen, 2001;) According to the Industries (Development and Regulation) Act of 1951, most of the industries were

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[114] In 1974 C. Subramaniam, the then Minister of Industrial Development had admitted that fewer licenses were granted to West Bengal than to Maharastra and Gujarat. He gave main reason for such a difference as that West Bengal's application were received from large industrial houses or from foreign companies. Not many applications were received from medium or new entrepreneurs and the majority being for traditional industries like jute coal, steel or heavy engineering. (BCCI, 1975, p. 51)

[115] Under this Act undertakings possessing assets valued of Rs. 20 crores or above, or those which are dominant in the production or distribution of goods or the provision of services have to register themselves with the Government. Though the Act does not automatically debar further expansion of these companies yet this is to be permitted only if it is in the "wider public interest". How this Act has affected industry in West Bengal is understod by the fact, revealed in March 1974 by the Chairman of the MRTP Commission that not a single application had been received by the Commission from any monopoly house in West Bengal. Rightly or wrongly, industrialists fear rejection of their plans. This is an added reason for the lack of new investment in West Bengal in recent years. (BCCI, 1975, p. 52)

[116]The legacy of foreign control on investment in industry, mines and plantations in West Bengal did not help the State. As late as in 1966-67, data on companies registered elsewhere but working in India showed that West Bengal had 288 such companies, against 181 in Maharastra, with the other States having only a sprinkling of such companies. (Dasgupta,S, " West Bengal and Industry A Regional Perspective, EPW, Nov. 21,1998, p. 3056 also see Vaid (1972)

given to the States. Since then, however, the list has been drastically changed. The original was beyond recognition. As a result 93 per cent of the organised industry in the country were out of the reach of the State governments for they fell entirely within the jurisdiction of the Centre. Therefore, in the changed situation the Sate could only work as a pressure group for setting up industries in their region. (BCCI, 1975, pp. 46-47) "This meant that being able to influence the government's policies became an important precondition for industrial growth of the States. (Pedersen, 2001, p. 649) Lack of regional investors and lack of influence on Central policies made it difficult for West Bengal to attract "investible resources to the state either through the diversion of private capital through the licensing system or by investment in the public sector."[117] (Dasgupta, 1998, p. 3058)

During 1970s though the State managed to recover partly from its industrial stagnation of the late 1960s and improve its position as far as industrial licence is concerned but the State has never been able to reach its pre-1965 level. Lack of interest of investment in the State continued since that period from which the State is yet to recover. In terms of both value added and employment the pre-eminence of West Bengal was lost by the late 1970s[118] which has become evident in its declining share in not only the

[117] Former Chief Minister of West Bengal Jyoti Basu had repeatedly been saying that the Centre did not only invest any money for new public sector projects in the State but was also discouraging the private sector in the matter of setting up new industrial units in West Bengal. The lack of Centre's co-operation, as he said, has been reflected in the fall in direct investment by the Central government in West Bengal through i's undertakings. The share of West Bengal in the total Central investment has fallen from 11.7 percent in 1970 to 7.1 per cent in 1985, whereas the share of Maharastra had increased from 3.1 percent in 1970 to 16.1 per cent in 1985. (Chaudhuri, K, "Left Front Ten Years in Power", EPW, July 25, 1987, p. 1230) However, Central investment in the basic and heavy industrial sectors most of which are situated in the eastern region including West Bengal started declining since the mid-1960s. Bannerjee (1986) observes that investment by the Centre in the public sector undertakings in West Bengal declined from 19.06 per cent of the total investment in 1966 to 12.89 per cent in 1975. (Banerjee, D, "Unevenness of Development in a National Economy: A Case Study of West Bengal Industries", Centre for Studies in Social Sciences, Occasional Paper No. 86, Calcutta, 1986,pp. 74) Therefore, much before the Left Front came to power Centre's investment started declining in West Bengal including the whole eastern region.

[118] Indian Chamber of Commerce commented that productivity in West Bengal continued to be very low. Units under the same management and with similar machines are working better in other States as compared to West Bengal. With about 13 per cent of the organised sectors labour force the value added by West Bengal is only 11.6 per cent in 1977-78 as against 13.2 per cent (employment) and 20.9 per cent (share in value added) in 1965. It is evident from the table below that while other States such as Maharastra, Gujarat managed to increase their share of value added over the period from 1965 to 1977-78, West Bengal registered a sharp decline. (West Bengal Need for Industrial Reconstruction, Indian Chamber of Commerce, Calcutta, 1983, p. 7)

total industrial licences issued to the State but also in the declining number of industrial licences for new units and substantial expansion. Therefore, the industrial licences issued to West Bengal had undergone a qualitative deterioration. In 1965 out of the 63 licences issued to West Bengal 47 were for new units i.e., for substantial expansion while in 1973 out of the total 41 licences issued only 3 were for new units and 11 were for substantial expansion. The same trend continued until the late 1970s and also in the later period. Out of total licences issued to the State very little were, issued for new units and substantial expansion. (Dasgupta, 1998, p. 3051)(see table 4, 5, 5(a) and 5 (b) in Appendix)

It was in this context the Left Front government came to power in 1977. Complaint of discrimination against the State as regards issuing less number of industrial licences to West Bengal has to be examined against this backdrop. The pre-existing structural constraints such as narrow base of industries and lack of modernisation of the existing units[119], pre-dominance of export based industries owned either by foreign companies or governments combined with continuously deteriorated infrastructural situation made the State more investment unfriendly and had accentuated the industrial stagnation further in the later period. It is well known that infrastructure plays an important role in attracting investment into a

Table

Percentage Share of Four States in the All India Employment and Value Added

State	Share in Employment		Share in Value Added	
	1965	1977-78	1965	1977-78
Maharastra	19.2	17.5	24.9	25.0
West Bengal	22.1	13.2	20.9	11.6
Gujrat	8.5	9.0	8.6	10.2
Tamil Nadu	8.7	9.9	8.8	9.9

Source: West Bengal Need for Industrial Reconstruction, Indian Chamber of Commerce, Calcutta, 1983, p. 7

[119] Modernisation of some old industries is urgently called for but trade unions are averse to modernisation and rationalisation. Most of the industries in West Bengal are traditional industries. Unless they are modernised they can not compete with their counterparts. For example in jute industry there is more than 15 per cent excess labour. It should take not more than 50 persons to produce a ton of jute goods, while it takes 80 to 90 persons for the same in jute industry of West Bengal. (West Bengal Need for Industrial Reconstruction, Indian Chamber of Commerce, Calcutta, 1983, p. 7) It is worth recalling the comment made by Bengal Chamber of Commerce in 1975 that there has been no compulsion to diversify production or modernise industry. Some of West Bengal's engineering products have been priced out due to higher production cost despite low labour cost. So lack of fund for modernisation has been in existence since much earlier. (West Bengal The travail Continues, Bengal Chamber of Commerce & Industry, 1975, p. 15)

particular region. Indian Chamber of Commerce (1983) made a thorough study on serious infrastructural bottleneck of the State covering the period from the mid 1960s to the late 1970s.[120] At the same time The Association of Indian Engineering Industry (AIEI) observed that the industrial structure of West Bengal had remained the same for the last twenty years and "...witnessing a complete breakdown of infrastructure which far from attracting fresh investment is resulting in a massive flight of capital to other States and that too by companies who were firmly entrenched in this State for nearly a century." (The Statesman, January 31, 1982; Quoted in Mallick, 1993, p. 182)

Recently Ghosh & De (1998) wanted to construct a composite index of regional infrastructural development which is so far called Physical Infrastructure Development Index (PIDI) giving varying weight to six commonly used representative indicators of physical infrastructure such as transport network (railway + road), irrigation facility, power and telephone density etc. According to PIDI, whereas in 1971-72 West Bengal's rank was 8 among all the major States in India, it registered a sharp decline and came down to 18 in 1994-95 (table 6 see Appendix) (Ghosh & De, 1998, p. 3041) implying a persistent deterioration of its infrastructure. Similar attempt was also made by Centre for Monitoring of Indian Economy (CMIE). Relative infrastructure index of the different States in 1993-94 indicates that the better off States in general are in a position to provide much better infrastructure than the poorer ones. West Bengal's infrastructure index was as low as 94.2 and was followed by Assam (78.9) Bihar (81.1), Madhya Pradesh (75.3) and Rajasthan (83.0) (table 7 see Appendix) (also see Kurian, 2000, p. 547)

Poor infra-structure, low profitability of the existing industries in West Bengal are the main reasons for industrial stagnation, was also

[120] West Bengal's industrial stagnation was due to the inter-action of several adverse factors as observed by Indian Chamber of Commerce (1983). Uncertainty of power supply, deteriorating infrastructure facilities, aversion to modernisation and rationalisation of labour have all contributed to the present deteriorated industrial scenario of the State. (ibid., p. 18) One of the major bottlenecks of infrastructure in the State was acute power shortages. The major reason for the power shortage was, however, low capacity utilisation in the existing power plants and slow pace of capacity expansion. Expansion of generating capacity in the State was very low in the past and has continued during the later period too. The slow growth of capacity expansion in West Bengal compared to other States during 1951-81 will be evident from table 8 (a) (Appendix). Compared to many States the Plant Load Factor (PLF) in West Bengal continues to be also very low during 1979-80 to 1984-85 (table 8 (b) see Appendix)The per capita availability of power is one of the important indicators of industrialisation which was quite low in West Bengal compared to other States during 1979-80. (table 8 (c) see Appendix) (West Bengal Need for Industrial Reconstruction, Indian Chamber of Commerce, Calcutta,1983, pp. 3-5) As regards development expenditure on capital account which is incurred on capital formation and hence infrastructural development, declined from 56 per cent in 1966-67 to 31 per cent in 1981-82. On the contrary revenue expenditure account increased from 54 per cent in 1966-67 to 71.4 per cent in 1981-82. (ibid., p. 20)

acknowledged by the report titled 'Industrial Revival of West Bengal' prepared by A.Banerjee & others in 2001. In the infrastructure sector the report mentioned three major areas, in urgent need to be developed were roads, electricity and communication which however, requires significant amount of capital expenditure, hence capital formation. But Comptroller of Auditor General (CAG) has already pointed out that Plan expenditure of the State showed a negative growth rate (-) 1.6 per cent from 1994-95 to 1998-99. The State's debt liabilities had been also as high as Rs. 11, 030 crores in 1998-99 when its total revenue was Rs. 9,387 crores. (Bandyopadhyay, 2001, p. 4789) This area will be dealt with thoroughly in the chapter 6 of this study.

As far as supply of power is concerned power generation not the only important factor for industrialisation. More important is proper transmission and distribution network that is the determining factor. There was hardly any grid network in the whole eastern and north eastern region and therefore even if surplus power was generated anywhere in these two regions, it could not be easily transmitted to deficit areas. (Hazari, 1983, pp. 12) Such lack of transmission facilities and distribution network in West Bengal along with the whole eastern region seems to continue till to date.[121] Furthermore, apart from the CMDA area of the State, the quality of power supply in the districts of West Bengal prevents setting up industries in this region. There is not only uncertainty of "supply of power but the poor quality (low voltage and fluctuating voltage) also has a devastating effect on industrial plant and machinery deterring any prospective investors". (Bandyopadhyay, 2001, p. 4790)

Cumulative effect of all these factors led to prolonged stagnation in the industrial sectors of West Bengal[122] which has been evident in growing number of sick industries in the State since the early 1980s.[123] It seems

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121 For the same reason we can see that power became abundant because as is no demand of power. There is no demand for power from big industries and the subscriber of such units are only 2000. Power supply is there but there is no efficient arrangement for transmission. (*Anandabazar Patrika,* Calcutta based Bengali Daily, 12th October, 1998) Inadequate transmission and distribution network and the fact that the expected increase in demand for power has failed to materialise have also compounded the problem. Non-utilisation of the additional power generation capacity is a problem faced by the entire region. The lack of demand for power made power abundant but low demand and lack of distribution facility hinders power suplly where it is needed. (Times of India, June 4, 1997)

122 In 1980-81 West Bengal produced 9.8 per cent of the total industrial output of India. It reached at 4.5 per cent in 1995-96. Since then there has been marginal improvement but nothing significant. West Bengal's share in the foreign trade (export and import) was 10 per cent of India's total in 1985-86, which came down to 4 per cent in 1998-99. As for the measure of vibrancy of trade in 1999-2000, the value of cheques cleared in Calcutta was just 6 per cent of the value in Mumbai, compared to the State's own shrae of 38 per cent in 1980-81. Thus from the second largest industrial State in India in the mid-1960s West Bengal has slipped down to remain just ahead of Uttar Pradesh. (Bandyopadhyay, D, "Recipie for Industrial Revival", EPW, December 29, 2001, p. 4788)

123 Increasing number of industries turned sick in the State due to the cumulative effect of all these adverse factors. Industries had become sick at higher rate in West Bengal than all States in India. **(***Anik,* Calcutta based Quarterly Bengali Magazine*,* December, 1994, p.15) The number of closures of industrial units in Calcutta began to accelerate from the beginning of the 1980s. In December 1979 the number of sick or closed factories was 22,366 and it increased to 147,780 at the end of 1986 and further stepped up to 159,928 in

clear that labour militancy could no longer provide an easy explanation for the lack of industrial investment since strikes have decreased significantly while lockouts and closures by industrialists increased sharply since the early 1980s. Number of strikes in 1980 was 78 while the number of lockouts declared by industrialists was as high as 130 and registered a sharp increase to 270 in 2000. In contrast number of strikes came down to 26 only in 2000 (table 9 see Appendix) (Economic Review, Statistical Appendix, GOWB, p. 115) Such increasing number of sick industries coupled with low level of industrial activity led to low level of industrial licenses issued to the State during the entire Left Front era. Therefore, the question immediately arises in our mind that while it is true that during the post-1977 period West Bengal has received lower level of industrial licences compared to the other industrially developed States (though the trend started much earlier), it is not clear to what extent it is the reflection of deliberate discrimination against the State or it is just the reflection of low level of economic activities and lack of investors' interest in the State. Since after the abolition of the industrial licensing policy (1991) West Bengal did not manage to get sufficient industrial licenses compared to both its past performance as well as compared to the other States. (Kurian, 2000; Pedersen, 2001, p. 661) Before turning to this area it would be worthwhile to mention the observation of Mallick (1993) who also seems to have arrived at a similar conclusion.

Mallick (1993) also argued that it is difficult to prove any politically motivated discrimination since there is no evidence of systematic discrimination made against West Bengal during the Left Front era compared to the Congress regime. Consequently lower number of industrial licenses to the State during the Left Front era, as perceived by Mallick (1993), was the result of relatively poor infrastructure of the State, prolonged industrial stagnation and absence of local entrepreneurs who could have had considerable influence on Centre's policy. Therefore, he felt that, "even the Left Front admits that investment in Bengal has been on the downturn since the 1950's when Congress was in the power. Bengal in any case has neither the electoral numbers to exert political pressure nor the efficient infrastructure likely to encourage investment." He went on to say that "if one looks at the issuing of licenses by the Centre during both Congress and Communist regimes there does not appear to be any systematic discrimination against Bengal because of it's Communist government. Though it does not receive the highest number of licenses, it occupies a middle position commensurate with the investment opportunities it can provide." (Mallick,1993, p. 183)

During the post-liberalisation period industrial licensing policy was abolished. And in the changed situation Industrial Entrepreneurs Memoranda (IEM) has become the indicator of propensity to invest in a particular State and IEM is supposed to be submitted by potential investors to the respective State governments. In 1994 West Bengal government declared their industrial policy and started wooing industrialists into the State along with other State governments by offering various incentives. As evident from table 10 (see Appendix) that despite such incentives offered by

June 1987. About Rs. 5,738 crore of bank loan are now locked up with them. (Mitra, A, "Is Calcutta Still India's City?", EPW, May 5-12 1990. p. 1003) the State West Bengal's percentage share of total investment proposals coming through the Industrial Entrepreneur's Memoranda (IEM) was as low as 3.3 per cent during the period between August 1991 and December 1998 which was not only lower than Andhra Pradesh (8.3 per cent), Gujarat (18.7 per cent), Karnataka (5.6 per cent) and Maharastra (18.0 per cent) but it was also considerably lower than Rajasthan (3.9 per cent), Uttar Pradesh (9.4 per cent) and Madhya Pradesh (7.4 per cent). By and large the disparities between the forward States and the backward States are obvious. The group of the forward States managed to secure about two-third of the investment proposals while the group of the backward States accounted for just about 28 per cent of the total amount. Investment into a particular region depends on better infrastructural facilities, conducive environment for running industries etc. Middle and poor category States, quite evidently, have been lagging behind the forward States in regard to the above mentioned facilities and are placed in a disadvantageous position they in the race for attracting investment into their region. But not to speak of poor income States (Bihar, Orissa, Assam), of the middle income States, West Bengal's position seems to be the worst just above Kerala (1.1 pert cent). In fact, as it was concluded by Pedersen (2001), that its "performance has been very much in line with its share of past industrial licenses." (Pedersen, 2001, p. 661) Separately, the situation regarding foreign investment in West Bengal also conforms with the domestic investment. West Bengal's share of IEM filed was as low as 3.1 per cent between June 1995 and January 1997. And its share of approved foreign investment has been even lower accounting only 2.3 per cent reflecting the reluctance shown by foreign as well as domestic investors into this State. (Pedersen, 2001, p. 662)

Low credit-deposit ratio and low level of financial support by financial institutions

West Bengal government esspecially the Left Front Ministers feel that they have been discriminated by the Centrally controlled financial institutions and commercial banks. Since investment of Centrally controlled financial institutions (namely, LIC, IDB, ICICI, IFC, IRBI, SBI, UTI) and credit-deposit ratio of scheduled commercial banks in West Bengal have remained significantly low compared to the other States during the post-Left Front era. Therefore, "it is alleged (by West Bengal government) that commercial banks show surprising reluctance to advance credit to units or individuals located in the state. To put it concretely the so called credit-deposit ratios (i.e., C-D ratios) of branches of commercial banks in West Bengal have remained remarkably low levels in comparison with those observed in some economically more developed states." (Das & Maiti, 1998, p. 3081)

However, it is also alleged that one of the major reasons of slow growth rate of development mainly in the industrial front in West Bengal is lack of institutional credit. Moreover, growing industrial sickness in the State is mainly due to lack of funds for modernisation and expansion of industrial units. (Chowdhury, 1975, (First edition) pp. 66-67) New entrepreneurs and the existing industrial units in the State have not been provided credit as liberally as have been done in other States by the Centrally controlled financial institutions and scheduled commercial banks. (Basu,1989, p.11; Choudhury, 1975, pp. 66-67)

As in the case of issuing industrial licences, another allegation of declining share of institutional credit to West Bengal came to the fore since the mid-1960s. Accordingly the complaint of providing inadequate credit to West Bengal during the pre-Left Front era was also perceived from two different angles. On the one hand it was perceived from the perspective of regional imbalance and on the other hand different business organisations concerned with West Bengal considered it from the State's angle. From the former perspective West Bengal was considered as a developed State and apparent disparities in banking development in few advanced States including West Bengal compared to the less developed States[124] was of a great concern. Thus the problem of siphoning of the deposits mobilised in the poor income States in order to cater to the high income States consequent upon proportionately larger demand for bank credit than deposits in these advanced States were the major areas of contention. Furthermore, it was also alleged that the Centrally controlled financial institutions seem to have followed the path of widening regional disparity by providing major share of financial assistance to the advanced States compared to the backward ones. (Report of the Taxation Enquiry Commission, Government of Kerala, 1969, 26-27; Thavraj, 1978, pp. 131-132; George & Gulati, 1985; Shukla & Roy Chowdhury; 1992, pp. 253-279)

The Report of Taxation Enquiry Commission, Kerala (1969) revealed State-wise distribution of bank deposits and bank credits of the scheduled commercial banks for years 1961 & 1966. It is evident from table 11 (See Appendix) that there are very wide variations in per capita bank deposit and per capita bank credit among the States. Evidently, the richer States had greater access to bank credit on account of the relatively high degree of industrial and commercial activities. This tendency is reflected by relatively excess credit over deposits in the richer States like Maharastra and West Bengal compared to the poor category States like Bihar and Orissa. In 1961 per capita bank credit in West Bengal (Rs. 93.5) was greater than per capita bank deposit (Rs. 89.3). In 1966 similar trend continued in West Bengal. Per capita bank credit of West Bengal was Rs. 142 which was higher than the per capita bank deposit of Rs.128.2. In case of Maharastra in 1961 per capita bank credit (Rs. 97.0) was much higher than par capita bank deposit (Rs. 20.7) though in 1966 per capital bank deposit (Rs. 203. 9) in

[124]Disparities in the banking sector development which plays a vital role in economic development of a particular region was analysed in Rao's (1981) study Bank constitutes an important institution attracting deposits and lending credit i.e., the growth of banking facilities indicates extension of organised credit to the developing sectors of the economy. State wise index of Bank development indicated that developed States such as Maharastra, West Bengal, Madras, and Gujarat occupied top four positions in the banking sector in 1956, while the industrially backward States registered low banking index values which established that banking development took place only in the industrialised areas. It was revealed that Maharastra occupied first and West Bengal second place in banking development index during 1956, 1961 and 1965 followed by Madras and Gujarat which respectively occupied third and the fourth Place withs variation from year to year. (Rao,H, Centre-State Financial Relations Criteria of Federal Fiscal Transfers and Their Application in India, Allied Publishers Private Limited, New Delhi, 1981, pp. 85-86)

Maharastra was much higher than the per capita bank credit (Rs. 174.1). By and large there is a clear indication of siphoning of the excess deposits accumulated in the less developed industrialised States through the network of banking institutions in favour of the already developed industrial and commercial centres. (Report of the Taxation Enquiry Committee, 1969, Government of Kerala, 1969, pp. 26-27) Similar observation was also made by Thavraj (1978). Considering the period of 1970s he concluded that there was a wide variation in per capita bank deposit and per capita bank credit among the States. Commercial bank credit in the four industrially advanced States like Maharastra, West Bengal, Gujarat and Tamil Nadu was about 57.4 per cent of the total commercial credit in the country while the bank deposits accumulated in these States constituted less than 50 per cent of the total deposit as on 30th June 1974 reflecting siphoning of the excess deposits from developed to backward region. (Thavraj, 1978, pp. 131-132)

This trend also evident from the disbursement of funds made by the all-India financial institutions. Richer States like Maharastra, West Bengal, Gujarat and Tamil Nadu tended to absorb a pre-dominant portion of the financial assistance channelled through all India financial institutions. Particularly, Maharastra and West Bengal have accounted nearly 40 per cent of the financial assistance sanctioned by Industrial Development Bank of India (IDBI) between July 1964 & June 1968 and 46 per cent of the credit given by Industrial Credit and Investment Corporation of India (ICICI) up to December 31, 1966. In the case of credit channelled through the Industrial Finance Corporation of India (IFCI) these States share was about 32 per cent up to June 1968. (Report of the Taxation Enquiry Committee, Government of Kerala, 1969, pp. 26-27) Thavraj (1978) also observed that Maharastra, Gujarat, Tamil Nadu and West Bengal claimed the major share of the credit disbursed by these centrally controlled financial institutions i.e., these four States claimed nearly 50 per cent of the long term funds disbursed by the Industrial Development Bank of India (IDBI) during 1975-76 and about 62 per cent of the loans sanctioned by the Industrial Credit and Investment Corporation of India (ICICI) up to December 31, 1976. In case of the credit sanctioned through the Industrial Finance Corporation of India (IFCI) the share of the four States has been about 48 per cent up to June 30, 1976. (Thavraj, 1978, pp. 131-132)

However, considering the case of West Bengal separately, it was evident that West Bengal's share of per capita credit as well as financial assistance through all India financial institutions since the 1960s was much less than those in the other developed States including Maharastra. Although until the early 1970s the industrial situation of West Bengal was more or less comparable with Maharastra. Afterwards West Bengal registered a drastic fall in terms of almost all indicators as we have mentioned earlier. It was in this context Bengal National Chamber of Commerce and Industry (BNCCI) (1965) complained that though West Bengal comes next to Maharastra in the percentages of ex-factory value output and the value added by manufactures, the State is not receiving much financial help from the different Centrally controlled financial agencies.[125] Similar contention was

[125] Therefore compared to Maharastra as credit disbursed by IFC as on June 1964, West Bengal received 10.1 per cent as against 17.3 per cent in Maharastra. Credit disbursed by

expressed by Bengal Chamber of Commerce and Industry (BCCI) (1971) that as against the share of industrial development West Bengal definitely was provided less financial assistance by the all India financial institutions than Maharastra. Thus, West Bengal clearly was deprived of its due. West Bengal's share of the total credit disbursed by the all India financial institutions at the end of 1966-67 should not have been only 13.1 per cent as against 26.5 per cent in Maharastra and 14.7 per cent in Tamil Nadu (table 12 see Appendix) (BCCI,1971, pp. 146-147) The same trend continued during the early years of 1970s. West Bengal, as alleged by BCCI, was not favoured by the Centrally controlled financial institutions compared to the other developed States.[126]

West Bengal was also classified under the rich income States by the pioneering studies undertaken by Gulati & George (1978) and George & Gulati (1985) covering both the period 1969-76 and 1973-80. West Bengal's share of credit by commercial banks as well as financial assistance by the Centrally controlled financial institutions were much lower than in case of the other advanced States. Therefore, credit plus investment disbursed by commercial banks during the period of 1969-76 was only Rs. 184 for West Bengal as against Rs. 215 for Gujarat, Rs. 349 for Maharastra and Rs. 393 for Punjab. (see table 11 of chapter 4 in Appendix) On the other hand credit-deposit ratio was also lowest in West Bengal which accounted for 50 as against 62 in Gujarat, 73 in Maharastra, 103 in Haryana and 78 in Punjab. Equally credit + investment to deposit ratio was also quite low in West Bengal compared to the other developed States during the same period. (table 13 see Appendix)

Similar trend continued even after the Left Front government came to power. If we consider the investment by major credit institutions during the Left Front era, it will be found that West Bengal was at the bottom list of the so called developed States as can be shown from table 14 (see Appendix). However, one of the major handicaps of receiving adequate credit for West Bengal is that the head offices of almost all Centrally controlled financial institutions are located either in Bombay or in New Delhi. Furthermore, regional offices are not given sufficient power to sanction loan beyond a certain small amount. Therefore, locational advantage of having head offices is enjoyed by the adjoining States. Though Calcutta is the biggest city in India its demand for having the head offices for financial institutions were denied. (Basu, 1989, p. 11)

ICICI as on 1963 West Bengal received 8.1 per cent as against 33.8 per cent to Maharastra. Likewise Credit disbursed by LIC, West Bengal received 28. 1 per cent as against 31.0 in Maharastra (Economic Problems of West Bengal Proceeding of the Seminar held in March 1965, Bengal National Chamber of Commerce and Industry, Calcutta, 1965, p. 173)

[126]Taking financial institutions as a whole (IDBI, IFCI, ICICI, IRCI,) Maharastra continued to be the most favoured State. In 1970-71, 1971-72 and 1972-73 Maharastra received Rs. 52.8 crores , Rs. 48.4 crores and Rs. 64.3 crores respectively as against Rs. 11.3 crores, Rs.13.7 crores and Rs. 20.8 crores for West Bengal during the same period. (West Bengal The Travail Continues, BCCI, Calcutta, 1975, p. 61)

Constant allegation of low credit-deposit ratio of West Bengal compared to the other developed States seems to be a major area of tension during the Left Front era. In this connection it was argued that high or low credit-deposit ratio of a State could be an outcome of a combination of different complicated factors. Low and high credit-deposit ratio do not always necessarily correspond to poverty and abundance of a particular region. It may also be noted that credit-deposit ratio as an indicator of investment has certain limitations as observed by Kurian (1999). Relatively lower credit-deposit ratio in States like Goa (24.6) Punjab (38.6) and Kerala (44.3) as on March 1998 compared to other developed States may result from partly high bank deposit in the States on account of large remittances from migrants which is well beyond the investment potential of these States (table 15 see Appendix) (Kurian, 1999, p. 1117) Similarly, high credit-deposit ratio of a particular region, however, does not always reflect abundance of credit to the region. The credit-deposit ratio of a State may be high for example, if the underdevelopment of the State keeps deposit mobilisation at a low level. Therefore, high credit-deposit ratio does not always corresponds with higher level of economic activities and larger share of credits to the particular region. (Das & Maiti, 1998, p. 3081)

Nevertheless more often than not low credit-deposit ratio corresponds to low level of economic activities, low demand for credit and low credit worthiness. The very low credit-deposit ratio of States like Bihar (27.5) and Uttar Pradesh (28.6) is a reflection of the fact that these States are unable to absorb the even lower level of deposits mobilised there.(table 15) (Kurian, 1999, p. 1117) Das & Maiti (1998) opined that one of the determining factors of credit-deposit ratio of a State or a region is credit-worthiness. A low credit-deposit ratio may result from the unwillingness on the part of the banks to advance loans in a State for low credit-worthiness of the entrepreneurs of that State. (Das & Maiti, 1998, p. 3081) Therefore, according to the law of market credit flow will be into those States or regions which are more worthy than others. Low credit-deposit ratio may also reflect low demand for bank credit for productive purposes due to low level of economic activities. In West Bengal, as argued by higher officials of commercial banks, there is hardly any demand for bank credit due to lack of interest of investors to invest in this State. Therefore, the allegation of providing low volume of credit against the commercial banks of this State does not seem to have any ground for lack of demand for bank credit automatically leads to low level of credit- deposit ratio of the State. (*Anandabazar Patrika* (Calcutta based Bengali Daily), October 22, 1998)

However, it is relevant to note that credit-deposit ratio has been showing a declining trend for all States since the last three decades as observed by Das & Maiti (1998). The credit-deposit ratios over time across the States revealed a number of interesting features. Firstly, over the period from 1972-73 to 1993-94 credit-deposit ratio indicates a downward trend for every State. Therefore, though the credit-deposit ratio of West Bengal has remained below the all India average except in the first few years of the 1970s, West Bengal can not be singled out in this respect because as this particular feature is seen in Uttar Pradesh, Gujarat, and even in Punjab. (Das & Maiti, 1998, p. 3088)

During the post-liberalisation period due to recessionary conditions overall credit-deposit ratio of the commercial banks has been coming down. The credit-deposit ratio of the all India level was as high as 61 per cent as on last Friday of March 1992. Between 1992 and 1998 the over all credit-deposit ratio came down by 5.5 percentage point. The decline was much steeper in the case of low income States, 12 percentage point in Bihar, 12.3 in Madhya Pradesh, 27 in Orissa, 7.8 in Rajasthan, 16 in Uttar Pradesh. Contrary to that credit-deposit ratio in Maharastra improved from 62.4 per cent in 1992 to 72.3 per cent in 1998. (Kurian, 1999, p. 1117)

Secondly, the problem with the credit-deposit ratio analysis and using it as an investment indicator is that it often overlooks the intra-State regional disparity in providing credit. There is a considerable variation in credit-deposit ratio not only across the States but also across the different regions of a given State as well. In general credit-deposit ratio is highest for the urban metropolitan area and lowest for the semi-urban area. (Das & Maiti, 1998, p. 3088)

However, the problem of low credit provided to West Bengal can be seen both from the angle of State-specific constraints and problem of the federal fiscal relations of India. Stagnating industrial base, large number of sick industries and low level of economic activities of the State could not attract higher level of investment and hence higher level of bank credit along with other poor regions not only during the post Left Front era but also during the pre-Left Front era. On the other hand the problem can be seen in the broader context of regional imbalance in the federal structure of India. Of all types of transfers, as we have noted earlier, discretionary transfers and financial assistance by the Centrally controlled financial institutions have all along been showing a most regressive trend since last several decades. Contrary to that, Finance Commission's transfer though constituting only a small portion of the total transfers, has been showing less regressive trend than these other two types of transfers.

West Bengal over time slipped down from the rank of the high income State to a middle income State and lost its pre-eminent position in terms of almost all indicators. Belonging to one of these less developed regions, West Bengal has become a victim of inequitous distribution of the federal fiscal transfers (particularly financial assistance disbursed by financial institutions) and failed to receive adequate support to break the vicious circle of low level equilibrium. Low level of economic and industrial activities of the State led to low level of resource mobilisation, hence low level of Plan expenditure resulting in poor infrastructural facilities that in turn make it difficult to attract adequate investment and bank credit which further leads to low level of economic activities. Thus the reluctance of large scale investors to invest in the State is being reflected by the decline in the share of West Bengal in the total assistance disbursed by all India financial institutions as we have mention earlier. [127]

[127] While it was in the region of 8 per cent in the 1971-77 period it had declined to 5.6 per cent in the period from 1982-83 to 1986-87. The corresponding shares of other States in this period were Maharastra 18.6 per cent, Gujarat 12.6 per cent, Tamil Nadu 10.2 per

Therefore, there is a positive association between economic activities, level of income and credit flow to a certain region. The debate regarding financial assistance through both the Centrally controlled financial institutions and commercial banks has given rise to two different arguments. One is regarding market and another is related to attainment of regional equity. As mentioned earlier, regional equality argument emphasised on the point that special care should be taken by the Centre in order to bring all regions belonging to different development stages because of historical reality at the same parity. And disadvantaged regions should be helped to break the vicious circle they are entrapped in, so that they can catch up with the developed States. On the other hand market argument feels that credit worthiness and demand for credit should determine the flow of credit to a particular region. Besides, the financial institutions have to be guided by considerations of optimal return on their resources. (Mathur, 1994, p. 226)

The rationale of market seems to have continued during the post liberalisation period when the disparity between the richer States and the poorer States aggravated further. And investment flow and financial assistance flow had more or less been directed towards the developed regions than the less developed regions which seems to be the pre-dominant feature till date. In the post liberalisation period market has been assigned greater role in investment decisions. The performance of a individual State in terms of infrastructural facilities, economic growth and higher level of economic activities seem to be major determinants of attracting investment into this region.

Share of different States in total bank deposits mobilised and the credit disbursed as on March 1998 are given in table 15 (see Appendix). It is evident that 54 per cent of the total bank deposits was mobilised in the group of developed States while the group of backward States accounted for only about 31 percent. Again the share of total bank credit of the developed States accounted for about 65 per cent while the less developed States received only about 21 per cent of the bank credits. (Kurian, 2000, p. 546) Thus the share of bank credit of the developed Sates are much higher than the credit given to them that, however, indicates siphoning of the resources from the backward to the forward regions to meet their excess demand for credit. Similarly, credit deposit ratio was much more favourable for the forward States than the backward States as is evidenced from table 15. Considering the position of West Bengal separately, it is found that share of bank credit of the State was only 6.2 per cent as against the

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cent, Uttar Pradesh 8.6 per cent, Karnataka 7.8 per cent and Andhra Pradesh, 4 per cent. (Dasgupta, EPW, 1998, p. 3053)

One estimation shows that West Bengal received only 6.4 per cent of the total disbursement by the all India financial institutions as credit up to March 1986. Among the major States, Maharastra had the privilege to have 18.3 per cent of the total. Gujarat 11.8 percent, Karnataka 18.3 per cent, Uttar Pradesh 8.1 per cent and Andhra Pradesh 7.8 per cent. (Choudhury, B, 1975, p. 66) Similarly, percentage of credit to deposit by the Commercial banks until December 1985 was as follows: Haryana 68.3 per cent, Maharastra 85.1 percent, Gujarat 54.4 per cent, Andhra Pradesh 77.2 per cent and Karnataka, 87.6 per cent. But West Bengal got only 50. 3 per cent, Bihar, 39.8 per cent and Assam 52.4 per cent. (Choudhury, B, 1975, pp. 71-72)

State's deposit mobilisation of 7.5 per cent of the all-India total as on March 1998. Receiving lower level of credit than deposit mobilised in the particular region is the typical feature of the most poor and the middle income States in the Indian federation. Thus in Assam whereas 1.0 per cent of all-India total deposit mobilised in the State but only 0.6 per cent credit was disbursed. In Bihar 2.1 per cent credit was disbursed as against 4.3 per cent deposit was mobilised. In Madhya Pradesh 3.6 per cent credit was disbursed as against 3.9 per cent deposit was mobilised and in Uttar Pradesh 5.1 per cent credit was disbursed as against 9.9 per cent deposit was mobilised during the same period. (table 15)

The great disparity between the developed and the less developed States is also evident from the cumulative share of financial assistance disbursed by all India financial institutions. State-wise financial disbursement up to the end of March,1997 are given in table 16 (see Appendix). It is revealed that the share of the developed States (63.4 per cent) is almost two and half times higher than the less developed States, (25.1 per cent) indicating clearly where the resources mobilised through the all India financial institutions were flowing. Here too West Bengal's share was as low as 3.9 per cent which was, however, higher than the poor income States namely Bihar (1.4 per cent), Assam (0.5 per cent) but was considerably lower than the other middle income States like Uttar Pradesh (7.9 per cent), Madhya Pradesh (5.1 per cent), and Rajasthan (4.5 per cent). (Kurian, 2000, p. 545)

Low level of Plan outlay: result of regressive structure of the Indian federation or due to fiscal imprudence practised by the State?

Successive Left Front Ministries have launched the complaint on different occasions of being discriminated by the Centre for the low volume of Central Plan assistance and hence low level of Plan outlay compared to the other high income States. As we have earlier mentioned , wide disparities in the allocation of Plan outlay among the States is one of the regressive features of the federal fiscal transfers of India. Low resource generation capacity of the backward States on account of low potential for economic activities and hence relatively narrow revenue base compared to the forward States makes it difficult for them to receive higher Plan outlay. It is true that the pre-existing structural constraints prevent the low and the middle income States in general and West Bengal in particular from mobilising higher amount of own resources and hence receiving higher Plan outlay. But what remains to be seen is whether fiscal imprudence and in-discipline combined with the existing structural constraints of the State also contributes to the declining trend of own resource mobilisation and hence allocation of lower Plan outlay.

The period under study can be divided into two periods, the pre and the post-Left Front era. The former ranging roughly from First Plan (1951-56) to Fifth Plan (1974-79) and the latter from Sixth Plan (1980-85) to Ninth Plan (1997-2002). The complaint of being discriminated during the pre-Left front era came to the fore during the short tenure of the United Front government (1967-69). It was alleged by the United Front government that in respect of per capita Plan expenditure West Bengal was in the 12th position in the Second Plan, 14th position in the Third Plan and the last but one position during two years from 1966 to 1968 among the all Indian States. (Memorandum to the Fifth Finance Commission, West Bengal Government, 1969, p.19) (table 17 see Appendix)

We have already mentioned in the preceding part of this study that while it is true that per capita Plan outlay in West Bengal was quite low not only during the post-Left Front era but also during pre-Left Front era (though it was considerably higher than the low and the middle income States), its own resource mobilisation also constituted relatively smaller proportion of the total Plan financing throughout the First to Fifth Plan. Though we have touched this area earlier, it needs further explanation. A comparison of table 18 & table 6 of chapter 4 of this study (see Appendix) would reveal that West Bengal's own revenues as proportion of the aggregate Plan expenditure during First to Fifth Plan was not only quite low compared to the other high income States to which West Bengal belonged but it was also quite low compared to the all States' average except during the Second Plan and the Third Plan. Other component of the Plan financing i.e., per capita Central assistance to West Bengal in contrast was as high as the other high income States during the above mentioned period.

Bengal Camber Commerce and Industry (1971) also questioned the validity of such allegation of being discriminated raised by the United Front government as far as allocation of per capita Plan outlay was concerned. It is quite evident, as argued by the Bengal Chamber of Commerce, that Plan outlay/Plan expenditure to a particular State depends on its own resource mobilisation. It will be seen from table 19 (see Appendix) that in terms of the total per capita Plan outlay for the whole period of 18 years (1951-69), West Bengal really occupied one of the lowest positions among the 16 States. Nevertheless, as BCCI questioned, "can it be said that this lagging behind on the part of West Bengal was due solely or even mainly to Centre's' discrimination against the State"? (BBCI,1971, p.144) On the contrary it would be evident from table 19 that the total per capita Central assistance to West Bengal during these 18 years was Rs. 141, which was higher than Gujarat's Rs. 132, Tamil Nadu's Rs. 131 and Maharastra's Rs. 102. Even in the Fourth Plan in which West Bengal's per capita Plan outlay (Rs.79) was the lowest of all States, but its per capita Central assistance was at Rs. 54. This was, however, the same as in Maharastra (Rs. 54) and only a rupee less than in Tamil Nadu (Rs. 55) "Therefore, it would appear from the above table 19 that West Bengal's short fall in Plan outlay was not mainly due to any adverse discrimination by the Centre. It was mainly due to the State's failure to mobilise better internal resources". (BCCI, 1971, p. 144,)

The remedy therefore lies in the greater effort for augmenting State's internal resources which has been deteriorating not only from the mid-1960s but also even earlier that was evidenced from the studies undertaken by National Council of Applied Economic Research (NCAER)(1962), Fifth Finance Commission (1969) and Banerjee (1972).Table 20 (see Appendix) indicates major trends of the different components of the State's revenues between 1951-52 and 1958-59. Between these two years, total revenue had increased by 109 per cent while the different components of revenue increased at different rates. Grants from the Union government had increased by 259 per cent and shared taxes by 107 per cent. On the other hand, State taxes increased by only 82 per cent. The relatively high rates of increase registered by the Union grants and shared taxes compared to own resources reflects the increasing scale of assistance given by the Central institutions to the State. (NCAER,1962, p. 187). Likewise, table 21 (see Appendix) reveals that amongst the various types of West Bengal's total resources, the State's own tax and non-tax receipts declined from 51.14 per cent to 48.15 per cent and 23.73 per cent to 15.63 per cent respectively over the period from 1960-61 to 1969-70. On the other hand, Central resource transfers to West Bengal by way of grants and shared taxes, increased from 6.07 per cent to 16.88 per cent and from 19.04 per cent to 19.32 per cent respectively over the same period. (Banerjee, 1972, pp. 143-144) The report of the Fifth Finance Commission (1969) examined the growth rate of own revenue of different States during the period 1961-62 to 1968-69. Among the all States West Bengal (210 per cent), however, registered the lowest growth of revenue from State sources except Bihar (208 per cent). (table 3, chapter 4 see Appendix) (Fifth Finance Commission, 1969, pp. 129-134)

As far as non-tax revenue is concerned all the States registered poor rate of mobilisation. But even among the general record of such poor performance, West Bengal's record was the worst of all as evidenced from table 22 (see Appendix) The rate of dividends earned from the State investments in 1968-69 was only 0.04 per cent for West Bengal as against the all States average of 1.35 per cent. Separately considering different States, it was 3.37 per cent for Gujarat, 3.08 per cent for Madhya Pradesh, 1.94 per cent for Rajasthan, 1.83 per cent for Uttar Pradesh, 1.79 per cent for Maharastra, (Fifth Finance Commission, 1969, p.191)

Part of the reason why receipts of existing taxes were not growing fast was the failure of the collection machinery. According to the Fifth Finance commission (1969) over a quarter of the annual demand for sales tax in West Bengal was left arrears by 1966-67. Percentage of sales tax arrears to the total demand in West Bengal was 25.64 in 1966-67. In contrast, the respective figures for Maharastra was 10.75, Gujarat 5.37, Andhra Pradesh 11.17, Tamil Nadu 14.86 and the all India figure was 15.73 during the same period. (table 23 see Appendix) On the whole all taxes taken together West Bengal had highest outstanding arrears of Rs. 28.44 except Uttar Pradesh (28.76) in 1966-67. No other State in the Indian Union had such a large percentage of arrears in sales tax demand nor such large absolute amounts of outstanding tax arrears. (table 24 see Appendix)

Against the backdrop of such prolonged record of lower resource mobilisation potential of the State, the complaint of discrimination launched by the Left Front government needs to be examined. And it remains to be seen whether low realisation of Plan target on account of meagre resource mobilisation of the State has become the determining factor of lower Plan outlay for the subsequent Plan or it is just the reflection of a State-specific discrimination against West Bengal. Ray & Sato (1987) seemed to have expressed the view of West Bengal government and commented that “It is apparent from these figures”, i.e., from per capita Plan outlay of the Sixth Plan (1980-85) compared to high income States, that “West Bengal can legitimately complain of not only an unjustifiable disparity between Central Plan aid to West Bengal and that to other A category States, but also of unpredictably wide fluctuations in this aid, which seriously impair the capacity of the Government of West Bengal to launch and implement development programmes”. (Ray & Sato,1987, p. 124)

However, it was observed by the Planning Commission during the Sixth Plan (1980-85) that the wide gap between the promise made by the West Bengal government (on resources) each year while finalising the Plan and what they actually achieved was growing. This kind of shortfall became the regular phenomenon over the years. Consequently it was felt that the West Bengal government tended to supply to the Planning Commission over estimated figures in order to receive a larger Plan outlay from the Planning Commission.[128] (Mainstream, March 31, 1984, p. 6)

On the other hand West Bengal government felt that the State had to often go through ‘financial squeeze’ which prevented it from achieving Plan target. The fault, as complained by the State, lay with the Centre for, restriction was imposed on drawing overdrafts by the State governments which caused severe strain on the State’s resource base. Besides the State’s own dues from the Centre are often delayed. More importantly the ‘financial squeeze’ according to the State government was also on account of the Centre’s refusal to provide Rs. 325 crores recommended by the Eighth Finance Commission. But a State official felt that it would not have been possible to fulfil 1984-85 annual Plan target even if the Centre had granted the amount recommended by the Eighth Finance Commission.(“A Bankrupt State”, India Today, April 15, 1985, p. 54) This regular shortfall in achieving Plan target, as observed by a scholar, was mainly due to the failure of own resource mobilisation of the State. One example of the State’s performance in own resource mobilisation in this respect could be given. Out of 21 State undertakings of West Bengal, 19 were running at huge losses. (Mainstream, March 31, 1984, pp. 5-6) Consequently, during the Sixth Plan, shortfall in reaching Plan targets of West Bengal was nearly 50 percent which was the highest of all States as against the all States average of 26 per cent. Even all the poor income States such as Bihar (33.1), Assam (16.7), Orissa (24.0) and the middle income States like Kerala (22.0), Tamil Nadu (17.4), Uttar Pradesh (19,0), Rajasthan (22.4) had much lower shortfall than West Bengal. (Table 9 of chapter 4 see Appendix) (Bagchi & Sen, 1992, pp. 55-57)

While introducing the Budget for 1986-87, Joyti Basu launched the complaint against low Plan outlay allocation for West Bengal during the

[128] Finance Minister of West Bengal himself admitted that his government could at most achieve about 70 per cent of the ambitious Rs. 748 crore annual Plan of 1984-85. A number of bureaucrats were of the view that it would be difficult to spend more than 50 per cent of the 1984-85 Plan allocations under the Sixth Plan. (India Today, April 15, 1985)

Seventh Plan (1985-90). He felt that the proposed outlay of Rs. 4,125 crores was too small and demanded higher Plan outlay for the State and consequently more Central Plan assistance. (Mishra, 1986, p. 33) But such high Plan outlay was denied by the Planning Commission due to its past performance. The Planning Commission commented that such a big Seventh Plan could not be provided in view of the fact the State failed to spend fully the amount allotted for the Sixth Plan. The actual expenditure in the Sixth Plan was not above Rs. 2,500 crores against the sanctioned amount of Rs. 3,500 crores. Therefore on the basis of the past Plan performance a bigger Seventh Plan could not be sanctioned. (Basu, 1989, pp.31-33)

It is evident from table 9 of chapter 4 of the study that in West Bengal the targeted Plan outlay of the Seventh Plan (Rs. 4,125) was only 18 per cent higher than that of the Sixth Plan (Rs. 3,500). Even so the State managed to achieve only 86.0 per cent of the Plan target i.e., registered a shortfall about 14 per cent. (Bagchi & Sen, 1992, p. 57) as against the all India average of 11.3 per cent. Contrary to that Central assistance as proportion of total Plan outlay of the State during the Seventh Plan was as high as 29.43 per cent which was not only the highest among the all high income States and higher than all the high income States average (18.21) but also much higher than some of the middle income States namely Madhya Pardesh (24.15), Tamil Nadu (25.86) (table 8 of chapter 4 see Appendix)

However, own funds of the States for financing the Plan comprises the balance from current revenues (BCR), contribution of public sector undertakings, non debt capital receipts, additional resource mobilised (ARM) and State's own borrowing. It would be worthwhile to examine the State-wise financing pattern of the different five year Plans. So far as financing Sixth Plan is concerned an important feature evidenced from table 25 (see Appendix) is that all the State's were suffering from shortfall in financing Plan from own sources. Seemingly, large aggregate shortfalls in all States seems to reflect overestimation of own resource mobilisation of the States at the time of setting the Plan targets before the Planning Commission. But of all the States the largest shortfall in aggregate own State resources was, however, found in West Bengal (67 per cent) during the Sixth Plan followed by Kerala (51), Bihar (44), Haryana (36), Punjab (30), Orissa (28), Uttar Pradesh (28) and Rajasthan (23). The shortfall in balance of current revenue (BCR) was the single largest factor responsible for the shortfall in aggregate resources in almost all States. In West Bengal the shortfall in BCR was as high as 92.8 per cent, the highest among all States during the Sixth Plan. Moreover, in West Bengal out of the total shortfall of Rs. 2,234 crore about Rs. 1500 crores or 64 per cent was attributable to the deficiency in BCR. Another source of financing Plan of the States is contribution from public sector enterprises (PSE). Table 25 indicates that the shortfall in the contributions of the public sector enterprises (PSE) was significant in absolute terms in Bihar, Punjab, Madhya Pradesh, Rajasthan, Uttar Pradesh and West Bengal. On the other hand recourse to the States' provident fund, small savings and adjustments in over drafts seemed to prove helpful in all States. Evidently, the States instead of exploiting own resource potential were financing an increasing portion of their Plans with borrowing leading to a growing burden of debt.

The financing pattern of West Bengal separately indicates that during the Sixth Plan, contribution of BCR according to latest estimate was fixed at Rs.115.9 crore and contribution from public sector enterprises was (--) Rs.360.8 which, however, denoted liability of the State. On the other hand, small savings, provident fund and market borrowings, according to the latest estimate contributed Rs. 669.5, Rs. 110.0, Rs. 445.2 respectively reflecting greater dependence on borrowing than mobilising own resources. (Bagchi & Sen, 1992, pp. 68-75)

Same trend was evident during the Seventh Plan (1985-90). For the States as a whole shortfalls were caused mainly by deficiencies in both the two categories i.e., BCR and the contribution of PSE. With the exception of Bihar (6.1) and Madhya Pradesh (8.8) in most cases shortfalls in BCR accounted for the largest part of the shortfall in the States' own aggregate resources. West Bengal accounted for 83.5 per cent shortfall in BCR during the Seventh Plan. Only four States had larger shortfall in BCR than West Bengal namely Kerala (229.5), Punjab (107.6), Rajasthan (100.8) and Uttar Pradesh (84.0). For West Bengal during the Seventh Plan, BCR as per latest estimate was fixed at Rs. 139.3 crores and public sector enterprise was fixed at Rs. (--)113.0 crores (which denotes liability of the State). Loan from small savings, provident fund and adjustment in overdrafts accounted for Rs. 1640.7, Rs. 289.0, Rs. 328.8 respectively. Therefore, the borrowing component of the State's Plan financing was much higher than resource component. West Bengal appears to have made up a large shortfall in BCR (and smaller shortfall in other items) with increased overdrafts. (Bagchi & Sen, 1992, pp. 75-77)

An important factor affecting the availability of resources for the Plan is the loses of PSEs. Poor return from PSEs tend to affect the revenue of the States while interest and dividends from PSEs constitute an important component of own non-tax revenues of the States. Thus insignificant mobilisation of non-tax revenue ultimately is reflected in adverse shortfall in the balance of current revenues (BCR). Therefore, it is the BCR which plays a decisive role in determining the level of per capita Plan expenditure. While BCR by definition is current revenue minus non-plan current expenditure. In West Bengal during both the Sixth Plan and Seventh Plan the expenditure growth had significantly outpaced the growth of revenue receipts which put severe strain on the State's resource base and hence prevented the State from having a higher Plan expenditure.[129] On the other hand losses from PSEs led to a drain of the budget in the form of guarantee, equity and loan given by the States to these loss making PSEs. The detail of the

[129] The gap between revenue and expenditure growth in the Seventh Plan was the largest, 5.5 percentage points in Uttar Pradesh followed by Tamil Nadu, West Bengal, Punjab and Haryana. (ibid., p. 82) During the Sixth Plan total revenue receipts of West Bengal as per cent to SDP was 12.33 and total revenue expenditure as percent of SDP was 13.84. Total revenue receipts in the Seventh Plan as per cent of SDP was 14.87 and Total revenue expenditure was 15.32. (ibid., pp. 80-81)

performance of PSEs of the State would be discussed in chapter 6 of this study. Poor performance of PSEs put severe constraints on own resource mobilisation of the States directly through affecting BCR and indirectly through providing low infrastructural facilities leading to low level of economic development. Because it is often found that the States with low per capita Plan outlay are the States with poor performance in PSEs.[130]

Allegation against the States for practising fiscal in-discipline also came to the fore during the Eighth Plan (1992-97). Therefore the growing gap between the resources promised by the State governments for financing their Plans before the Planning Commission and the actual realisation of the Plan targets was also evident during the Eighth Plan. (Thimmaiah, 2000, p. 28)

Evidently, it could be noted in this connection that the performance of developed States in the realisation of Plan targets was far better than the poor and the middle income States in general which was also evident during the Eighth Plan. During the Eighth Plan only three high income States, Maharastra, Andhra Pradesh and Tamil Nadu and one middle income State, Kerala realised Plan outlays which exceeded the projections. Goa and Karnataka realised more than 90 per cent of the projected Plan outlay. And Gujarat, Punjab and Madhya Pradesh realised more than 80 per cent of the projected Plan outlays. On the contrary, except Haryana (66.70) Plan realisation with reference to projected Plan outlay was as low as 67 per cent in case of West Bengal (i.e., shortfall 33.20) which was, however, not only the lowest among all the high and the middle income States but also much lower than the overall Plan realisation for the 15 major States taken together (83 per cent). Among the poor income States Bihar (36 per cent) and Orissa (51 per cent) achieved lower Plan realisation than the projections compared to West Bengal. (table 26 see Appendix) Likewise, as far as per capita Eighth Plan expenditure (anticipated) for all the major States was concerned West Bengal's performance was almost the lowest among all the major States. Almost all States whether belonged to the high or the middle income category States i.e., (Gujarat, Haryana, Karnataka, Kerala, Maharastra, Punjab and Tamil Nadu) achieved expenditure levels higher than the all India average (Rs. 1,965). Among the middle income States, however, Andhra Pradesh (Rs.1858), Madhya Pradesh (Rs.1742) and Uttar Pradesh (Rs. 1372) realised lower than the average Plan expenditure achieved for all States. But the performance of West Bengal (Rs. 1144) and Bihar (592) seemed to be the worst of all. The bad performance of Bihar and West Bengal ascribed to very poor resource

[130] Two States with the lowest per capita Plan outlay i.e., Bihar & West Bengal during the Sixth and Seventh Plan also occupied the bottom rankings in the performance of State Electricity Boards and State Road Transport undertakings, the two major areas of investment in PSEs by the State. According to the Planning Commission's study in physical parameters and compounded grading, West Bengal scored 37 and Bihar 38, whereas Maharastra topped with 77 followed by Gujarat (64), Punjab (61) and Madhya Pradesh (59). (Bagchi, A & Sen, T, 'Budgetary Trends and Plan Financing in the States', in Bagchi, A, Bajaj, J.L & Byrd, W.A (ed.) State Finances in India, Vikas Publishing House Pvt. Ltd., New Delhi, 1992, pp. 76-77)

mobilisation efforts on the one hand and steep increase in the non-Plan expenditure on the other. (table 26) (Kurian, 2000, p. 543)

The sources of financing the total Plans consists of own funds of the States, borrowing by the States and Central assistance. Among all States West Bengal (- 65.1 per cent) had the highest amount of realised negative own funds except Bihar((-74 per cent) as against 1.6 per cent own funds (realised) of 15 major States during the Eighth Plan. Negative own funds of West Bengal (-65 per cent), however, indicates that that about 65 per cent of the borrowing /Central assistance was diverted by West Bengal for meeting current expenditure on non-Plan account. (table 10 of chapter 4 see Appendix) (Kurian, 1999, p. 1118)

Another major component of Plan financing was borrowing of the State. The projected share of borrowing for the 15 major States was 53 per cent of the total while the realised share was higher at 59 percent indicating greater dependence on borrowing for financing Eighth Plan for all States. However, of all the States West Bengal had the highest share of borrowing, 111 per cent and the lowest was for Maharastra just at 34 per cent. Though large number of States became dependent on borrowing for financing their Plan but West Bengal is the only State where borrowings accounted for more than 100 per cent of the Plan finances during the Eighth Plan. (table 35) (Kurian, 1999, p. 1118)

According to the Planning Commission's mid-term appraisal during the Eighth Plan, West Bengal was ranked as a 'below average' State at par with the backward States like Bihar and Orissa. The appraisal report severely criticised the State for its poor performance in the economic sector, non-utilisation of its Plan outlays, lack of resource mobilisation and consequently a declining trend of per capita income below the national average. However, Finance Minister of West Bengal opposed the appraisal report of the Planning Commission and said that the Plan targets of first two years under the Eighth Plan i.e., 1992-93 and 1993-94 could not be met mainly due to the decline in small savings collections of the State owing to faulty Central policies regarding the small savings. (The Statesman, July 30, 1995)

Similar trend of heavy reliance on borrowing for financing Plan rather than exploiting own revenue potential continued during the Ninth Plan (1997-02). During the Eighth Plan negative own funds and high level of borrowing were limited to few States, mostly the low income States. Considering first two years of Ninth Plan i.e., 1997-98 and 1998-99, the share of negative contribution and borrowing have gone up for almost all States. The contribution of the 15 major States' own funds was (--) 18 per cent in 1997-98 and (--) 24.9 per cent during 1998-99 as against their contribution (realised) 1.6 per cent during the Eighth Plan. On the other hand the percentage share of borrowing of the 15 major States was 78.2 in 1997-98 and 87.6 in 1998-99 as against 59. 0 (realised) during the Eighth Plan. (Kurian, 1999, pp. 1118-1119)

However, it was alleged by the Planning Commission that three States namely West Bengal, Jharkhand and Himachal Pradesh visibly failed to come out with promised resource mobilisation proposals for Ninth Plan. Therefore, West Bengal has been getting dependent on borrowings and an increasing proportion of the borrowed funds being utilised in current consumption as well as for Plan financing. The State's own borrowing has already topped the category of financing for the Plan. On the other hand West Bengal's own fund (which was however, also made up of borrowing) as a percentage of Plan resources has continuously worsened from (--) 62.3 per cent in 1997-98 (Actual) to (--) 178.4 per cent in 2000-01 (latest estimate) indicating progressively greater reliance on borrowing. (Business Line, August 14, 2001)

Seemingly, Finance Ministry of India was quite reluctant to accept the continued plea of West Bengal for higher allocation of Plan during the financial year 2001-02 while it was apprehended that it would further aggravate the borrowing habit of the State government. West Bengal had already topped the list of heavy borrowings and consequent upon heavy borrowing, the interest liability as percentage of revenues receipts of the State had escalated from 30.8 per cent in 1997-98 to 45.9 per cent in 2000-01. Interest payment had more than doubled in 2001-01 as compared to 1997-98 and had surpassed the State's own tax revenue during 2000-01 that might have thrown the State into a severe debt trap. (Business Line, August 14, 2001)

Therefore, the complaint launched by West Bengal of being discriminated against by the Centre does not seem to have any ground while, several studies, as we have observed earlier, revealed that there is a clear correspondence between the level of development of the States and the Central Plan assistance provided and hence the total allocation of Plan outlay. Thus such general structural constraints of resource mobilisation of the less developed States in general on the one hand and fiscal imprudence and fiscal indiscipline of West Bengal on the other seem to have played a greater role in its meagre own resource mobilisation and hence low level of allocation of Plan Outlay.

Conclusion

Complaint of discrimination against West Bengal was also taken forward by the Congress government during the pre-Left front era. But they did not want to perceive it as State-specific deliberate discrimination against the State in particular. This is partly due to the fact that the same political party (Congress) was ruling both in the State and in the Centre thus ruling out any possibility of raising the allegation of politically motivated discrimination and partly due to the fact that movement against the Centre did not gain much momentum during the pre-Left Front era. However, such style of bargaining underwent a sea change soon after the United Front government came to Power (1967-69). During their short tenure they laid the foundation of asking for radical change of the federal structure of India which was further consolidated by the Left Front government soon after it came to power in 1977.

Along with that at the political plane, while addressing the electorate the Left Front government brought the populist stance of being discriminated against by the Centre and held the Centre responsible for its present deterioration. Consequently the demand for radical restructuring of the Indian federation which was taken up by the Left Front during the late 1970s and the early 1980s started being overshadowed by this slogan. Therefore, the whole movement against the Centre since the mid-1980s in West Bengal was based on the basis of such an emotive slogan of being discriminated against by the Centre in relation to distribution of industrial licence, institutional finance and allocation of Plan outlay compared to the other States namely high income States. Eventually, the State started to single out itself not only from the rest of the Indian States but also the historical, cultural and economic reality of the State while expressing that the State has been subject to discrimination. Thus, instead of perceiving these issues in respect to these realities it started emphasising that it is basically politically motivated, time specific and deliberate discrimination against the State in particular due to its political opposition.

Seemingly, such a position of the State seems to lack the broader perspective. Therefore, while pursuing the study on politics of discrimination as far West Bengal is concerned we need to see the problem in an overall perspective rather than in isolation. Firstly, the problem of the States in general belonging to the Indian federal structure which has a strong regressive tendency and centripetal bias. Secondly, the particular problem of a State belonging to the poor and the middle income group who have the further added disadvantage of not only facing the centripetal bias of the Indian federal structure but also the regressive structure of the Indian federation which clearly tend to discriminate against the less developed States and favour the rich income States. And thirdly, anther problem of a State belonging to disadvantageous region such as eastern region which has some typical characteristics and structural constraints that are both the legacy of the pre-Independence days and are the outcome of Central policies pursued after Independence. Lastly, State specific historical, social and economic development also need to be addressed while such State specific factors had shaped the future course of development of the State.

However, West Bengal started its journey as rich income State and was far ahead of the other States during the first two and half decades after Independence. Thereafter it started declining drastically in terms of almost all economic indicators. Therefore, by virtue of belonging to the high income group, the State was able to attract higher level of budgetary transfers (federal fiscal transfer) as well as institutional transfers (transfer from Centrally controlled financial institutions and commercial banks) and relatively higher share of industrial licence. But it should be noted that even during that time although the State managed to receive a much higher share than the less developed States but its position was somewhat lower than Maharastra along with the other industrially developed States. Particularly in respect of allocation of Plan outlay, institutional transfers and share of industrial licences which have strong positive association with the level of development. The reason behind that is not difficult to seek. From the very onset West Bengal's economy had been suffering from basic structural weakness such as low potential for growth, structural rigidity and lack of dynamism. Thus the sign of future deterioration of its economy became apparent even when the State was grouped under the high income States. Eventually since the mid-1960s its economy registered a sharp deterioration in terms of almost every economic indicator and consequently the State started lagging behind in terms of share of budgetary transfers as well as institutional transfers and share of industrial licences even though the State was ruled by the same party both at the Centre and the State. Therefore, it seems to us that there is a clear correspondence between economic development and federal transfers including other institutional transfers.

Afterwards since 1977 i.e., during the post –Left Front era the decline of its economy was continuous and drastic. The State was no longer grouped under the rich income States and slipped down to the middle income States carrying all the characteristics of the less developed States such as low revenue mobilisation potential, poor infrastructural development and so on. As time went by the State became the victim of regressive nature of the Indian federation along with the other poor and the middle income States. Therefore, the regressive federal structure of India along with the State's structural constraints existing from the pre-Independence days and lack of adequate effort made by the State to manage its economy efficiently (the detail of which will be discussed in the chapter 6 of this study) made it further difficult to retain its position and enjoy the benefit that the State used to receive earlier. It seems to us there is a clear correspondence between level of development of the State and the favour a State receives in terms higher level of budgetary as well as institutional transfers in the Indian federation. Thus rules out the possibility of any State-specific, time specific and politically motivated deliberate discrimination as regards above mentioned areas.

Appendix

Table: 1
State-Wise Distribution of Application and Industrial Licence 1956-1966

States	Total Number of Application	Number of Licence Issued
Andhra Pradesh	487	332
Maharastra	3645	2741
Madras	1263	970
Uttar Pradesh	1087	672
West Bengal	2296	1649
Bihar	688	517
Mysore	420	327

Source: Dsagupta, S, West Bengal and Industry A Regional Perspective, EPW, November 21, 1998, p. 3051

Table: 2
State-Wise Distribution of Industrial Licenses, 1956-66
(Per cent shares)

States	Total applications	Issued license
Andhra Pradesh	3.46	3.31
Assam	1.08	0.95
Maharastra	25.88	27.37
Kerala	3.11	3.61
Madhya Pradesh	2.85	2.47
Tamil Nadu	8.97	9.68
Orissa	1.46	1.18
Punjab	7.46	6.31
Rajasthan	1.97	1.76
Uttar Pradesh	7.72	6.71
West Bengal	16.30	16.46
Bihar	4.88	5.16
Mysore	2.98	3.26
Delhi	2.33	2.10
Gujarat	8.66	8.89
Others	0.95	0.78
Total	100.00	100.00

West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, 1971, p.145

Table: 3
Industrial Licences Issued to Different States Between 1952 and 1967

States	1952 to 1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Andhra Pradesh	77	15	31	45	48	46	24	41	22	19	11
Assam	18	--	14	25	12	10	8	4	2	2	3
Bihar	91	16	19	53	40	90	86	40	64	52	20
Delhi	56	12	44	45	23	12	12	4	4	--	3
Goa	--	--	--	--	--	--	4	2	5	2	--
Gujarat	173	59	99	129	131	122	82	66	33	33	31
Hariyana	--	--	--	--	--	--	--	--	--	13	9
Himachal Pradesh	--	--	2	2	--	1	1	1	1	--	--

Jammu & Kashmir	--	--	--	--	--	2	2	1	1	--	--
Kerala	54	16	24	140	60	35	21	20	7	11	7
Madhya Pradesh	56	5	12	40	34	42	38	12	17	13	6
Madras	282	72	142	148	105	74	80	144	55	30	17
Maharastra	504	224	382	506	424	275	246	183	127	112	101
Mysore	84	13	34	73	39	36	26	34	20	14	7
Orissa	41	11	10	16	12	19	11	10	5	6	2
Punjab	161	37	94	131	82	68	67	43	25	19	4
Rajasthan	32	7	10	30	29	32	21	8	14	10	10
Uttar Pradesh	172	42	68	134	104	49	70	40	47	20	13
West Bengal	379	122	217	309	209	184	169	101	66	50	48
Total	2182	659	1202	1826	1354	1100	950	761	527	415	292

Source: Report of the Taxation Enquiry Committee, Government of Kerala, 1969, pp. 46-47

Table: 4
Industrial license Issued to Different States Between 1970 & 1977

	1970	1971	1972	1973	1974	1975	1976	1977
Maharastra	112	162	131	171	265	255	143	150
West Bengal	46	81	54	41	107	74	56	40
Gujarat	39	66	57	75	89	97	83	60
Tamil Nadu	36	51	36	63	99	141	61	32
Andhra Pradesh	13	37	30	29	61	61	51	27
Karnataka	17	22	38	46	66	64	43	45
Uttar Pradesh	26	48	48	60	116	72	55	41
Bihar	22	24	18	9	24	15	17	16

Source: Dasgupta, S, 'West Bengal and Industry A Regional Perspective', EPW, November 21, 1998, p. 3055

Table: 5
Classification of Industrial Licence Granted to West Bengal Between 1971 and 1977

	1971	1972	1973	1974	1975	1976	1977
New Units	5	11	3	26	12	14	9
Substantial Expansion	16*	25*	11	20	23	7	6

Source: Dasgupta, S, 'West Bengal and Industry A Regional Perspective', EPW, November 21, 1998, p. 3055
*** includes Carry on Business (COB)**

Table: 5(a)
Number of Industrial Licences Granted to Different States (1977-87)

States	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
West Bengal	40	23	30	23	34	27	71	93	51	21	25
Maharastra	105	101	111	107	114	95	171	134	134	96	86
Gujarat	60	46	48	85	79	69	115	82	69	86	49
Andhra Pradesh	27	17	17	42	39	26	63	45	70	40	38
Tamil Nadu	32	28	26	37	30	41	76	85	177	61	41
Karnataka	45	26	24	40	25	34	65	49	69	42	45
Uttar Pradesh	41	26	33	30	24	22	98	80	79	69	40

Bihar	16	12	3	4	10	9	29	26	20	9	9

Source: Dasgupta, S, 'West Bengal and Industry A Regional Perspective', EPW, November 21, 1998, p. 3056

Table: 5(b)
Classification of Industrial Licence Granted to West Bengal (1977-87)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
New Units	9	4	6	5	6	7	7	5	4	2	5
Substantial Expansion	6	3	4	4	6	4	4	8	5	4	3

Source: Dasgupta, S, 'West Bengal and Industry A Regional Perspective', EPW, November 21, 1998, p. 3056

Table: 6
Physical Infrastructure Development Index (PIDI) of Different States
Between 1971-72 and 1994-95

States	1971-72		1994-95	
	PIDI	Rank	PIDI	Rank
Delhi	25.07	1	25.79	1
Punjab	23.59	2	24.01	2
Tamil Nadu	21.59	3	21.28	3
Kerala	20.88	4	17.70	10
Haryana	19.99	5	20.71	4
Maharastra	18.60	6	18.73	7
Karnataka	18.31	7	17.72	9
West Bengal	17.66	8	11.06	18
Gujarat	16.79	9	10.81	6
Bihar	16.27	10	12.50	15
Goa	15.66	11	20.20	5
Andhra Pradesh	14.54	12	18.57	8
Uttar Pradesh	13.92	13	13.46	12
Himachal Pradesh	12.94	14	15.22	11
Jammu & Kashmir	12.79	15	10.71	19
Orissa	12.02	16	13.31	13
Madhya Pradesh	10.84	18	11.87	17
Rajasthan	9.73	19	12.10	16
Assam	9.05	20	8.82	21

Source: Ghosh, B & De, P, ' Role of Infrastructure in Regional Development A Study Over the Plan Period', EPW, November 21, 1998, p. 3041

Table: 7
Level of Infrastructural Development During 1990s

State	Consumption of	Registered	Telecom lines	Percentage of	Relative

	power per capita (kwh) in 1996-97	vehicles per 1,000 persons as on March 31 1997	per 100 persons as on March 31, 1999	irrigation area in gross cropped areas as at end of 1994-95	infrastructure development index @ for the year 1993-94
Andhra Pradesh	332	42.1	2.36	39.6	96.1
Gujarat	686	91.5	3.75	28.9	122.4
Haryana	508	64.6	3.18	77.2	141.3
Karnataka	338	56.5	3.25	23.9	96.9
Kerala	236	46.5	4.66	13.6	157.1
Maharastra	557	57.2	4.93	15.3	107.0
Punjab	790	103.2	5.34	94.8	191.4
Tamil Nadu	469	56.9	3.84	49.5	144.0
Assam	108	19.9	0.95	15.0	78.9
Bihar	145	16.4	0.58	43.2	81.1
Madhya Pardesh	368	38.8	1.38	22.3	75.3
Orissa	447	22.9	1.05	25.8	97.0
Rajasthan	295	45.1	2.11	29.1	83.0
Uttar Pradesh	194	22.7	1.21	62.6	103.3
West Bengal	197	19.8	1.86	28.7	94.2
All-India	338	44.0	2.55	36.5	100.00

Source: Kurian, N.J, 'Widening Regional Disparities in India Some Indicators', EPW, February 12, 2000, p. 547

@ "The composite index of infrastructure development constructed by CMIE includes the following items with their respective weights in brackets. Transport facilities (26 per cent), energy consumption (24 per cent), irrigation facilities (20 per cent), banking facilities (12 per cent), communication infrastructure (6 per cent), educational institutions (6 per cent) and health facilities (6 per cent). the value of index is normalised at 100 for all-India." (Ibid., pp. 547)

Table: 8 (a)
Growth of Installed Capacity of Power From 1951 to 1981

States	31.12. 1951 (MW)	31.3. 1971 (MW)	31.12.1981 (MW)	Percentage increase between 1951 to 1981
West Bengal	546	1212	1675	207
Gujarat	142	907	2251	1485
Maharastra	339	2119	4075	1102
Uttar Pradesh	200	1351	3733	1766
Tamil Nadu	155	1966	2929	1790

Source: "West Bengal Need for Industrial Reconstruction", Indian Chamber of Commerce, Calcutta, 1983, p. 4

Table: 8 (b)
West Bengal State Electricity Board's Annual Plant Load Factor (percentage) And All India (from 1979-80 to 1984-85)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85*
West Bengal	43.5	42.1	37.6	38.5	35.9	36.5
All India	44.3	44.2	46.4	49.4	47.9	50.1

Source: Mallick, R, Development Policy of a Communist Government: West Bengal Since 1977, Cambridge University Press, Cambridge, 1993, p. 181

Table: 8 ©
Per Capita Availability of Power in 1979-80 (Utilities Only)

States	Per Capita Availability (KWH)
Punjab	405.32
Haryana	281.14
Gujarat	279.11
Maharastra	265.77
Tamil Nadu	222.81
Karnataka	187.17
West Bengal	123.04
Uttar Pradesh	93.61
Bihar	77.34

Source: : "West Bengal Need for Industrial Reconstruction", Indian Chamber of Commerce, Calcutta, 1983, p. 4

Table: 9
Industrial Disputes in West Bengal Between 1980 and 2000

Year	Number of Cases		
	Strikes	Lock-outs	Total
1980	78	130	208
1985	39	165	204
1990	16	179	195
1995	33	136	169
1996	17	144	161
1997	29	161	190
1998 ®	25	213	238
1999®	34	264	298
2000 (p) upto November	26	270	296

Source: Economic Review (Statistical Appendix),
Government of West Bengal 2000-01, p. 115
R= Revised
P= Provisional

Table: 10
Investment Proposals Obtained by the Major States of India From 1991 to 1998 (per cent)

States	Percentage share of Investment proposals from August 1991-December 1998
Andhra Pradesh	8.3
Gujarat	18.7
Haryana	3.6
Karnataka	5.6
Kerala	1.1
Maharastra	18.0
Punjab	3.4

Tamil Nadu	7.2
Sub-Total (Forward States)	65.9
Assam	0.7
Bihar	1.2
Madhya Pradesh	7.4
Orissa	2.2
Rajasthan	3.9
Uttar Pradesh	9.4
West Bengal	3.3
Sub Total (Backward States)	28.1
All India	100

Source: Kurian. N.J, Widening Regional Disparities in India Some Indicators, EPW, February 12, 2000, p. 545

Table: 11
Inter State Distribution of Deposits and Bank Credit of Scheduled Commercial Banks Between 1961 and 1966

States	No. Of offices		Deposits (Rs. crores)		Bank Credit (Rs. crores)		Per capita bank deposit (Rs.)		Per capita bank credit (Rs.)	
	1961	1966	1961	1966	1961	1966	1961	1966	1961	1966
Andhra Pradesh	332	461	58.9	132.9	48.1	81.1	16.4	33.3	13.4	20.3
Assam	45	65	17.7	36.3	5.0	9.8	14.9	26.2	4.2	7.1
Bihar	178	226	56.3	111.7	24.2	40.9	12.1	21.3	5.2	7.8
Gujarat	334	544	136.0	295.8	79.0	145.7	66.0	124.1	38.4	61.1
Jammu & Kashmir	14	15	11.0	19.6	1.2	1.4	30.5	51.1	3.4	3.7
Kerala	241	400	51.7	111.5	30.8	66.3	30.6	57.8	18.2	34.3
Madhya Pradesh	185	265	53.8	87.9	26.3	58.8	16.6	23.8	8.1	15.9
Madras	608	923	126.5	241.3	119.8	244.2	37.5	65.5	35.5	66.3
Maharastra	584	865	477.9	923.8	384.0	759.0	20.7	203.9	97.0	174.1
Mysore	426	611	77.6	182.2	52.9	116.6	32.9	68.3	22.4	43.7
Orissa	53	81	7.8	19.7	5.4	8.9	4.5	10.0	3.1	4.5
Punjab & Haryana	322	389	101.3	206.9	34.6	69.9	49.9	109.8	17.0	37.1
Rajasthan	179	259	33.8	61.7	15.7	28.8	16.7	26.3	7.8	12.2
Uttar Pradesh	460	575	132.7	268.0	76.0	133.1	18.0	32.3	10.3	13.6
West Bengal	257	382	311.8	516.7	326.3	575.5	89.3	128.2	93.5	142.0
Total States (Including others)	4414	6383	960.7	3594.1	1286.1	2443.0	44.6	72.1	29.3	50.0

Source: Report of the Taxation Enquiry Committee, Government of Kerala, 1969, pp. 42

Table: 12
State-wise Distribution of Assistance by Financial Institutions as at the end of 1966-67 (Rs. Lakhs)

States	Amount	Percentage Share
Andhra Pradesh	61,15	5.7
Assam	22,78	2.1
Bihar	57,80	5.4
Gujarat	94,14	8.8
Haryana	22,99	2.2
Kerala	25,17	2.4

Madhya Pradesh	**26,61**	**2.5**
Tamil Nadu	**156,21**	**14.7**
Maharastra	**282,23**	**26.5**
Mysore	**43,64**	**4.1**
Orissa	**19,62**	**1.8**
Punjab	**12,56**	**1.2**
Rajasthan	**32,91**	**3.1**
Uttar Pradesh	**54,82**	**5.2**
West Bengal	**139,73**	**13.1**
Jammu & Kashmir	**1,20**	**0.1**
Union Territories	**12,17**	**1.1**
Total	**1065,73**	**100.00**

West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, 1971, p.146

Table: 13
Credit-Deposit and Investment Deposit Ratios of Commercial Banks During 1969-76

States	**Credit-Deposit Ratio**	**Investment-Deposit Ratio**	**Credit + Investment Deposit Ratio**
A. High Income States			
Punjab	**78**	**11**	**89**
Haryana	**103**	**31**	**134**
Maharastra	**73**	**10**	**83**
Gujarat	**62**	**19**	**81**
West Bengal	**50**	**13**	**63**
Group A	**67**	**13**	**80**
B. Middle Income States			
Tamil Nadu	**114**	**26**	**140**
Kerala	**75**	**25**	**100**
Orissa	**51**	**65**	**116**
Assam	**58**	**36**	**94**
Karnataka	**114**	**22**	**136**
Andhra Pradesh	**65**	**23**	**88**
Group B	**92**	**26**	**118**
C. Low Income States			
Uttar Pradesh	**52**	**16**	**68**
Rajasthan	**66**	**38**	**104**
Madhya Pradesh	**48**	**22**	**70**
Bihar	**41**	**19**	**60**
Group C	**50**	**20**	**70**
D. Special Category States			
Group D	**29**	**25**	**54**
All States	**68**	**18**	**86**

Source: Gulati, I.S & George, K.K, ‘ Inter-State Redistribution Through Institutional Finance’, EPW, Special Number, August 1978, p. 1399

Table: 14
Transfers of Institutional Finance to West Bengal up to December 1985 and March 1986

States	All India Financial Institutions upto March 1986 (Per cent)	Distribution of Deposits & Advances of Scheduled Commercial Banks upto December 1985		
		Deposits (Rs. in Lakhs)	Advances (Rs. in lakhs)	Percentage of advances to deposits
West Bengal	6.4	88,66,49	44,63,76	50.3
Maharastra	18.3	1,63,59,76	1,39,15,16	85.1
Gujarat	11.8	53,25,62	28,98,08	54.4
Karnataka	8.1	42,45,47	36,76,84	87.6
Uttar Pradesh	8.1	85,44,50	39,70,43	46.5
Andhra Pradesh	7.8	48,67,99	37,58,80	77.2

Source: Choudhry, B, Portrait of West Bengal, Print-O-Craft, Calcutta, 1975 (First Edition) pp. 67-73

Table: 15
Bank Deposits and Bank Credit & Credit Deposit Ratio as on March, 1998

States	Share of Bank Deposits	Share of Bank credit	Credit Deposit ratio
Andhra Pradesh	5.3	6.9	72.1
Goa	--	--	48.2
Gujarat	5.9	5.1	48.2
Haryana	2.1	1.6	42.9
Karnataka	5.4	6.6	68.2
Kerala	4.6	3.7	44.3
Maharastra	19.9	25.9	72.3
Punjab	4.6	3.2	38.6
Tamil Nadu	6.6	11.5	96.1
Sub Total (Forward states)	54.4	64.5	
Assam	1.0	0.6	32.8
Bihar	4.3	2.1	27.5
Madhya Pradesh	3.9	3.6	51.4
Orissa	1.5	1.2	45.2
Rajasthan	2.8	2.4	47.4
Uttar Pradesh	9.9	5.1	47.4
West Bengal	7.5	6.2	46.1
Sub Total (Backward states)	30.9	21.2	
All India	100	100	55.5

Source: Kurian, N.J, State Government Finances A survey of Recent Trends, EPW, May 8, 1999, pp. 1116, and also see Kurian, N.J, Widening Regional Disparities in India Some Indicators, EPW, February 12, 2000, p. 546

Table: 16
Disbursal of Financial Assistance by Centrally Controlled Financial Institutions for Major States of India Until March 1997

State	Cumulative Share of Financial Assistance Disbursed by all India Financial Institutions	Cumulative Financial assistance Disbursed by State-Financial Corporation
Andhra Pradesh	7.2	7.8
Gujarat	13.5	9.3
Haryana	2.5	4.8
Karnataka	6.1	15.5
Kerala	1.7	4.4
Maharastra	21.0	11.5
Punjab	2.4	3.6
Tamil Nadu	9.0	10.6
Sub-Total (Forward States)	63.4	67.5
Assam	0.5	0.5
Bihar	1.4	2.0
Madhya Pradesh	5.1	3.2
Orissa	1.8	3.7
Rajasthan	4.5	6.1
Uttar Pradesh	7.9	11.1
West Bengal	3.9	2.5
Sub Total (Backward States)	25.1	29.1
All India	100.0	100.0

Source: Kurian, N.J, Widening Regional Disparities in India Some Indicators, EPW, February, 12, 2000, p. 545

Table: 17
Per Capita Plan Expenditure in West Bengal 1956- 68 (Rs.)

States	Second Plan (1956-61)	Third Plan (1961-66)	Annual Plan (1966-68)
Andhra Pradesh	50.2	85.6	40.2
Assam	53.0	97.4	43.4
Bihar	38.0	60.5	27.8
Bombay	59.9	-	-
Gujarat	-	100.5	52.8
Jammu & Kashmir	74.4	170.0	103.5
Kerala	46.7	93.6	43.5
Madhya Pradesh	44.9	77.8	33.5
Madras	55.5	92.1	42.2
Maharastra	-	92.2	54.7
Mysore	58.8	95.6	42.8
Nagaland	..	270.0	285.0
Orissa	51.1	104.7	49.5
Punjab	74.6	104.1	54.3
Rajasthan	49.7	88.0	38.8
Uttar Pradesh	31.0	65.8	37.0
West Bengal	44.6	75.6	30.6
Total States	48.3	83.7	41.2

Source: Memorandum to Fifth Finance Commission, West Bengal Government, 1969, p. 19

Table: 18
State's Own Revenues as Proportion of the Aggregate Plan Expenditure From the First Plan to Fifth Plan
(Percentage)

States	I Plan	II Plan	III Plan	Annual Plans	IV Plan	V Plan
Punjab	12.4	41.7	47.2	57.0	77.1	73.2
Haryana	--	--	--	45.9	78.8	73.7
Maharastra	68.6	65.4	61.6	71.5	76.2	82.4
Gujarat	64.8	66.0	52.9	63.0	71.7	78.0
West Bengal	26.1	53.2	48.3	30.4	41.5	62.2
Karnataka	31.9	51.1	37.5	43.5	55.3	69.1
Tamil Nadu	54.3	48.9	45.3	54.7	64.3	56.0
Kerala	35.1	51.9	33.0	38.6	48.9	53.2
Rajasthan	9.1	41.0	23.3	12.4	31.1	55.4
Andhra Pradesh	45.0	47.0	36.2	31.8	45.4	59.1
Madhya Pradesh	35.8	33.8	24.0	14.4	46.6	65.5
Uttar Pradesh	47.9	46.9	36.4	42.9	56.1	56.3
Orissa	20.2	25.8	38.8	33.6	37.8	42.0

Bihar	46.6	52.5	34.9	29.0	31.2	43.9
All States	39.1	49.4	40.8	43.6	57.4	64.1

Source: Ansari, M.M, ' Financing of the State's Plans A perspective for Regional Development, EPW, December 3, 1983, p. 2077

Table: 19
Per Capita Plan Out lay and Central Assistance for State Plans From First Plan to Fourth Plan

(Rs.)

States	Total for 18 years (1951-69)		Fourth Plan (1969-74)	
	Plan Outlay	Central Assistance	Plan Outlay	Central Assistance
Andhra Pradesh	243	149	90	66
Assam	269	201	161	157
Bihar	181	109	82	63
Gujrat	346	132	188	66
Haryana	81	52	212	87
Jammu & Kashmir	453	416	382	382
Kerala	264	161	133	90
Madhya Pradesh	223	164	96	71
Maharastra	300	102	178	54
Mysore	292	162	122	65
Ngaland	715	715	875	875
Orissa	309	214	81	71
Punjab	395	242	206	77
Rajasthan	260	202	101	93
Tamil Nadu	254	131	136	55
Uttar Pradesh	190	111	114	63
West Bengal	243	141	79	54
All States	253	147	123	71

West Bengal An Analytical Study, The Bengal Chamber of Commerce & Industry, 1971, p.143

Table: 20
Relative Increase in the Major Components of Revenue of West Bengal Between 1951-52 and 1958-59

Name of Source	1951-52		1958-59		Percentage increase between 1951-52 & 1958-59
	Rs. Crores	Percent of total	Rs Crores	Percent of total	
Shared taxes	7.06	18.4	14.58	18.2	106.5
State taxes	23.80	60.8	42.50	53.0	82.4
Revenue from commercial undertakings and forests	0.42	1.1	1.64	2.0	290.5
Other non-tax revenue	3.70	9.7	7.76	9.7	109.7
Grants from Union Government	3.83	10.0	13.73	17.1	258.5
Total	38.31	100.00	80.21	100.00	109.4

Source: Techno Economic Survey of West Bengal, National Council of Applied Economics Research (NCAER), 1962, p. 254

Table: 21

Percentage Sources of West Bengal's Receipts Between 1960-61 and 1969-70

Revenue Receipts	1960-61	1969-70
State's own tax receipts	51.14	48.15
Share in Central taxes	19.04	19.32
State's own non-tax receipts excluding grants	23.73	15.53
Grants from Centre	6.07	16.88
Total revenue receipts	100.00	100.00

Source: Banerjee, N, "Financial Resources for West Bengal's Development", in Bhattacharya, D (ed.) Focus on West Bengal Problems and prospects, 1972, p. 143

Table: 22

Rate of Dividends on State Investment in 1968-69 (Rs. in Lakhs)

States	Total investments at the end of 1967-68	Dividends in 1968-69	Rate of dividends col. 3 as percentage of col. 4
Andhra Pradesh	4188	29	0.69
Assam	1349	1	0.07
Bihar	N.A	3	NA
Gujarat	2911	98	3.37
Haryana	NA	2	NA
Jammu & Kashmir	896	1	0.11
Kerala	3027	28	0.92
Madhya Pradesh	2890	89	3.08
Maharastra	5023	90	1.79
Mysore	3414	41	1.20
Ngaland	NA	NA	NA
Orissa	3071	10	0.33
Punjab	1557	16	1.03
Rajasthan	824	16	1.94
Tamil Nadu	2525	19	0.75
Uttar Pradesh	2684	49	1.83
West Bengal	2241	1	0.04
Total	36600	493	1.35

Source: Fifth Finance Commission, 1969, pp. 191

Table: 23

Percentage of Sales Tax Arrears to the Total Demand From 1964-65 to 1966-67 (Percentage)

States	1964-65	1965-66	1966-67
Andhra Pradesh	13.82	13.49	11.17
Assam	9.35	10.15	13.15
Bihar	23.22	22.98	24.00
Gujarat	6.09	6.23	5.37
Haryana	-	-	5.39
Jammu & Kashmir	2.33	10.59	9.17
Kerala	18.01	18.92	16.76
Madhya Pradesh	10.54	9.60	8.89
Maharastra	12.86	12.27	10.75
Mysore	12.13	12.05	12.44
Orissa	22.73	22.04	23.53

Punjab	3.09	3.70	3.76
Rajasthan	7.58	8.76	11.62
Tamil Nadu	13.63	15.57	14.86
Urttar Pardesh	35.96	32.84	29.96
West Bengal	28.40	25.64	25.64
Total States	17.14	16.56	15.73

Source: Fifth Finance Commission, Government of India, 1969, p. 148

Table: 24
Arrears in Total Tax Revenue of the States in 1968-69
(Rs. Crores)

States	As on	Total
Andhra Pradesh	31.3.1968	20.92
Assam	31.3.1968	8.82
Bihar	31.3.1969	18.81
Gujrat	31.3.1968	5.49
Haryana	31.3.1968	0.43
Jammu & Kashmir	31.3.1969	0.53
Kerala	31.3.1969	9.23
Madhya Pradesh	31.3.1968	8.10
Maharastra	31.3.1968	17.85
Mysore	31.3.1968	12.88
Orissa	31.3.1968	4.66
Punjab	31.3.1969	1.45
Rajasthan	31.3.1968	9.12
Tamil Nadu	31.3.1969	10.29
Uttar Pradesh	31.3.1969	28.76
West Bengal	31.3.1969	28.44
Total	-	185.78

Source: Fifth Finance Commission, 1969, p. 146

Table: 25
Shortfall in Resources for the States During the Sixth Plan (1980-85)

States	BCR	CPSE	SS	PF	MCR	AOD	MB & NL	Total State Resources	Central Assistance	Total Resources@
Andhra Pradesh	37.9	1111.8	(-)8.7	6.3	26.6	(-)280.3	42.5	37.4	13.2	30.3
Bihar	40.9	719.1	3.0	32.6	46.7	27.4	23.1	62.6	15.4	44.1
Gujarat	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Haryana	48.0	472.9	7.5	17.1	(-)173.0	(-)580.7	24.3	41.9	(-)1.2	36.3
Karnataka	23.9	(-)9.3	(-)0.3	18.1	20.1	(-)42.2	35.1	24.1	22.8	23.8
Kerala	46.1	(-)59.2	(-)1.3	(-)4.7	38.6	21.5	42.3	30.3	24.0	51.1
Madhya Pradesh	14.1	747.2	24.8	60.1	(-)257.8	(-)388.8	34.4	36.9	22.4	33.0
Maharastra	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Orissa	24.9	(-)108.3	36.4	3.6	32.4	60.2	48.5	44.8	20.4	27.6
Punjab	50.2	1124.9	24.3	23.4	309.3	(-)82.7	12.8	32.1	16.7	29.8
Rajasthan	51.0	49.7	(-)26.2	10.0	(-)61.8	(-)160.2	13.6	37.2	(-)9.9	22.7
Tamil Nadu	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Uttar Pradesh	28.5	(-)1359.4	8.7	31.8	117.8	18.8	37.4	33.8	15.9	27.9
West Bengal	92.8	72.6	20.5	(-)9.3	(-)203.8	2473.7	30.6	81.4	7.5	67.0

Source: Bagchi, A & Sen, T, ' Budgetary Trends and Plan Financing in the States', in Bagchi, A & Bajaj, J.L, & Byrd, W.A (ed.) State Finances in India, Vikas Publishing House Pvt. Ltd., New Delhi, 1992, pp. 69-74

BCR= Balance of Current Revenue; CPSE= Contribution of Public Sector Enterprises; SS= Small Savings; PF= Provident Funds; MCR= Misc. Capital Receipts; AOD= Adjustment of Overdrafts etc.; MB & NL= Market Borrowing and Negotiated Loans

@ Total resources for State's Plan expenditure consists of Balance from Current Revenue, Contribution of Public Enterprises Small Savings, Provident Funds, Misc. Capital Receipts, Adjustment of Over Drafts etc., Market Borrowing and Negotiated Loans.

Table: 26
Allocation of Eighth Plan Outlay and Percentage Shortfall and Per Capita Anticipated Expenditure of Eighth Plan

States	Projected outlay (Rs. Crore at 1991-92 Prices)	Realised outlay (Rs. Crore at 1991-92 Prices)	Percentage of shortfall in projected outlay	Per Capita anticipated expenditure of 8th Plan (Rs.)
	(1)	(2)	(3)	(4)
High Income States				
Goa	761	701	7.88	--
Gujarat	11,500	9,319	18.96	2700
Haryana	5,700	3,802	33.29	2838
Maharastra	18,520	22,692	(-) 22.52	3101
Punjab	6,570	5,277	19.68	2951
Middle Income States				
Andhra Pradesh	10,500	10,966	(-) 4.43	1858
Karnataka	12,300	11,604	5.65	3138
Kerala	5,460	6,712	(-) 22.9	2370
Tamil Nadu	10,200	10,655	(-) 4.55	2427
West Bengal	9,760	6,519	33.20	1144
Low Income States				
Bihar	13,000	4,712	63.20	592
Madhya Pradesh	11,100	9,886	10.93	1742
Orissa	10,000	5,076	49.24	2123
Rajasthan	11,500	8,810	23.39	2548
Uttar Pradesh	21,000	15,778	24.74	1372
All India	1,57,871	1,32,519	16.05	1965

Source: Column 1 and 2 see Kurian, N.J, ' State Government Finances', EPW, May 8, 1999, pp. 1119 & column 4 see Kurian, N.J, 'Widening Regional Disparities in India Some Indicators', EPW, February 12, 2000, p. 543

Chapter: 6

Economic Policy Reform and Budgetary Performance of West Bengal During the 1990s Compared to Other States and the Previous Decade

Since the mid-1980's almost all Indian States have been facing considerable revenue deficit. The crisis has further accentuated after the inception of New Economic Policy (NEP), 1991. The reason behind such phenomenon lies in the structural constraints of Indian economy as well as some policy measures taken as part of NEP. In this context this chapter attempts to analyse the fiscal position of West Bengal during 1990s compared to other States and to the previous decade (1980s). Of all the major category States, in recent times West Bengal's budgetary crisis has been most acute one. According to the latest budgetary position, the State was declared one of the most indebted States in India and the rate of growth in public debt during 1990-99 was 19 per cent, the highest for any State with the exception of Himachal Pradesh (19.9 per cent) (Shankar, 2000, p. 4607). An estimation shows that during the 2001-02 fiscal year West Bengal government has spent 10 percent more than of its revenue receipts in current expenditure. Therefore, it has not only spent the whole amount of its revenue receipts collected during the respective year but it has also to borrow some additional amount in order to maintain its regular expenditure. Moreover, West Bengal government is one of the major States of India to have been taken considerable number of Overdrafts from the Reserve Bank of India for meeting its expenditure. During the financial year of 2000-01, the government took Overdraft 134 times which was considerably higher than most other Indian States. Only five States took more Overdrafts than West Bengal during the same financial year, namely Orissa (194), Bihar, Kerala (204) Manipur (263) and Uttar Pardesh (209). (*Anandabazar Patrika*, Bengali Daily, Calcutta, July 9, 2002) These pictures alone could indicate the severity of the budgetary crisis faced by West Bengal in recent years .

It is often argued that the main problem of West Bengal compared to other States is its low level of revenue mobilisation capacity compared to the other States on the one hand and continuously growing revenue expenditure in its budget on the other. Thus its revenue expenditure has been growing at quicker pace than its revenue receipts resulting in huge fiscal as well as revenue deficit. It remains to be seen how far such acute crisis is the outcome of the failure of internal resource mobilisation of West Bengal in particular and all States in general. And how far such acute fiscal crisis is the outcome of New Economic Policy pursued in 1991 which had allegedly worsened the position of the State governments in general further and eroded their fiscal base compared to previous decades.

After having been voted to power in 1977, the Left Front government ruling in West Bengal started complaining about being discriminated against by the Centre which eventually became the focal point of their movement against the existing bias of the federal fiscal relations in India. Consequently the State constantly blamed the Central government for its present plight. This chapter attempts to examine to what extent West Bengal has been subject to discrimination as far as devolution of resources from the Centre to the States is concerned during 1990s. And to what extent the present severe financial crisis is its own making by not attaching adequate importance to fiscal prudence, fiscal discipline and better management of its revenue raising potential and own resource mobilisation.

Trends in State governments finances over the two decades (1980-81 to 1999-00)

State finances in general have been undergoing significant deterioration since the late 1980s particularly after the New Economic Policy in 1991 came into effect. Until the early 1980s, the State governments in general enjoyed a revenue surplus. Deficits on the revenue account was a rather unusual phenomenon. The situation changed rapidly from the mid-1980s. And by the 1990s almost all States were reduced to deficit category States. (Nair,1998, pp. 41-42) Thus adequate attention should be paid to the State government's budgetary situation during the decade of 1980s. Later on we will turn to the decade of 1990s.

Table: 1
Comparative Study of Expenditure on Wages and Salaries and Revenue Receipts Among the States

States	Growth rates of salary and wages per cent per annum 1980-88	Average annual per capita own-tax revenue during the Sixth Plan (1980-85) (Rs.)	Average annual per capita own-tax revenue during the Seventh Plan (1985-90) (Rs.)
(1)	(2)	(3)	(4)
High Income States			
Gujarat	17.8	213.87	390.04
Haryana	17.3	241.33	448.11
Maharastra	16.5	243.31	454.20
Punjab	13.4	273.08	469.72
Aggregate	**16.25**	**242.89**	**440.51**
Middle Income States			
Andhra Pradesh	14.8	151.93	300.44
Karnataka	13.6	176.49	335.23
Kerala	16.9	171.64	330.32
Tamil Nadu	21.7	197.79	352.08
West Bengal	**15.9**	**122.47**	**240.17**
Aggregate	**16.58**	**164.06**	**311.64**
Low Income States			
Bihar	15.9	52.32	92.66
Madhya Pradesh	19.1	102.05	192.09
Orissa	16.5	65.58	132.15
Rajasthan	16.7	102.86	188.83
Uttar Pradesh	16.8	78.41	141.64
Aggregate	**17.0**	**80.24**	**149.47**
All Major States	**17.1**	**138.42**	**257.45**

Sources: For column 1 see Bagchi, A, Bajaj. J.L & Byrd, W.A (ed.) State Finances in India, NIPFP, Vikas Publishing House, New Delhi, 1992, p. 97. For column 2, ibid., p. 89, for column 3, ibid., p. 90

High growth of wages and salaries and subsidies is said to be one of the main reasons for the growing level of revenue deficit of the States. It could be noted that middle and low income States have proportionately higher level of expenditure on wages and salaries compared to the high income States. Thus middle and low income States not only tend to spend higher level of expenditure on wages and salaries compared to the high income States but also proportionate expenditure on salaries and wages was much higher compared to their own revenue mobilisation (table1). West Bengal's per capita revenue mobilisation during the 6th Plan period and 7th Plan period was only Rs. 122.47 and Rs. 240.17 respectively as against the all India average of Rs. 138.42 and Rs. 257.45 during the same period. In contrast to that, West Bengal's expenditure on wages and salaries was much higher than its own per capita revenue mobilisation. Expenditure on wages and salaries had grown at the rate of 17.1 per cent per year for all States over the period 1980-81 to 1987-88 as against 15.9 per cent in West Bengal. Though the growth rate of wages and salaries of West Bengal was slightly lower than all States average, which, however, was offset by a still lower level of per capita own revenue mobilisation of West Bengal during the two successive Plan periods. (table 1)

Another major reason for the rapid growth of government expenditure on wages and salaries at the States level is the phenomenal increase in employment in State governments' institutions as well as in government schools, aided institutions (quasi government) and local bodies. In 14 major State governments the net employment increased from 4.9 million in 1981 to 6.6 million in 1987 i.e., the rate of growth being 3.6 per cent per year. In case of West Bengal the growth rate of net employment was much higher than the all India level. Thus, the compound growth rate of the West Bengal government employees over the period 1981-87 was 4.87 as against the all India average growth rate (3.62) which is evident from the table 2 below.

It seems that State governments in general have been feeling obligated to expand there office in order to cope with the acute unemployment situation and inadequate absorption of such employment in private and Central government sectors.[131]

[131]. During 1981-94, employment in the State governments sectors of India increased from 7.5 million to 10.3 million i.e., an increase of 36%. Contrary to that Central government sectors employment grew from 5.9 million to 7 million, an increase of 17.2% during the same period. Most of this growth occurred between 1981-91, when the State governments expanded by about 31% and in contrast to that the Central government by 17.5%. The employment scenario in the country has continued to be grim outside the government sector in general. The private sector employment in large and small enterprises grew from 7.3 million to 7.9 million an increase of 7% over 13 years between 1981-94 which, however took place mostly in service sectors. During this same period the number of the registered unemployed increased from 17.8 million to 36.7% million. (Nair, S, Quarterly Journal of The Indian Institute of Public Administration, , January-March 1998, Vol. XLIV, No.1, pp. 42-43)

Table: 2
Total State Government Employees as on March 31, (Thousands)

States	1981-82	1987-88	Compound Growth Rate
Andhra Pradesh	**391.22**	**502.30**	**4.25**
Gujarat	**223.93**	**266.68**	**2.95**
Haryana	**200.38**	**243.24**	**3.28**
Karnataka	**383.97**	**478.76**	**3.75**
Kerala	**285.12**	**344.19**	**3.19**
Madhya Pradesh	**565.40**	**706.17**	**3.77**
Maharastra	**500.39**	**605.83**	**3.24**
Orissa	**227.81**	**281.41**	**3.58**
Punjab	**265.57**	**291.68**	**1.58**
Rajasthan	**364.92**	**430.32**	**2.79**
Tamil Nadu	**451.80**	**612.30**	**5.20**
Uttar Pradesh	**685.52**	**832.53**	**3.29**
West Bengal	**353.80**	**470.72**	**4.87**
All States	**4899.82**	**6066.12**	**3.62**

Source: Rao, M.G, Proposals for State Level Budgetary Reforms, EPW, February 1, 1992, p. 214

Furthermore, there are also other important reasons for the rapid growth of State government's employment. During the Centralised Planning period the emphasis has been on increasing Plan expenditure often by sacrificing more productive expenditure on maintenance in an objective to tap more funds from the Planning Commission. This too has left a legacy of large committed expenditure in the growing departmental heads and consequent increase in the employment for new Plan projects. Thus over the years "a number of new programmes under the Plans are taken up year after year even when existing projects and programmes can not be adequately funded due to shortages of resources". (Rao, 1992, p. 213)

Table: 3
Estimated Employment in Public Sector in West Bengal Between 1980 and 2000
(Number in Thousand)

Year Ended December	Central Government	State Government	Quasi Government	Local Bodies	Total
1980	451.0	366.0	651.2	112.1	1580.3
1985	428.0	412.3	765.9	114.8	1721.0
1990	415.0	427.2	696.7	147.0	1685.9
1991	421.6	428.9	703.1	144.5	1698.1
1992	413.3	431.6	695.0	148.7	1688.6
1993	416.2	430.0	693.4	148.9	1683.6
1994	413.3	432.5	681.5	146.2	1666.4
1995	411.2	432.4	638.6	151.1	1633.3
1996	411.2	433.7 ®	631.7	143.8	1620.4 ®
1997	407.2	435.0 ®	640.6	144.9	1627.7 ®
1998	409.9	436.3 ®	670.6	147.8 ®	1664.6 ®
1999 (P)	399.0	436.8	669.0	155.1	1659.9
1999 (March) (P)	409.6	436.8	671.6	147.9	1665.9
2000 (March) (p)	390.0	437.1	626.2	156.4	1609.7

R = Revised

P = Provisional
Source: Economic Review, Statistical Appendix, Government of West Bengal, Different Issues

Table: 4

Sector-Wise Distribution of Estimated Employment in West Bengal
From 1980 to 2000

(**number in Lakhs)**

Year Ended December	Public Sector	Organised Private Sector	Total
1980	15.80	10.84	26.64
1985	17.21	9.38	26.59
1990	16.86	8.90	26.76
1991	16.98	8.88	25.86
1992	16.89	8.14	25.03
1993	16.74	8.79	25.53
1994	16.63	7.96	24.59
1995	16.33	7.80	24.13
1996	16.20 ®	7.96	24.16 ®
1997	16.28 ®	7.82	24.10 ®
1998	16.65 ®	8.07 ®	24.72 ®
1999(P)	16.60	8.07	24.67
1999 (March)(P)	16.66	8.11	24.77
2000 (March) (p)	16.10	8.07	24.17

P = Provisional
R = Revised
Source: Economic Review, Statistical Appendix, Government Of West Bengal Different Issues

Table 3 indicates that in West Bengal the employment in the Central governmental sector has been decreasing from 451.0 thousands in 1980 to 390. 0 thousands in 2000. In contrast, during the same period (1980-2000) employment in State government sectors, quasi government sectors and local bodies have been indicating an increasing tendency. As for State government sectors the number of employees has increased from 366 thousands in 1980 to 437.1 thousands in 2000 and in quasi government sectors the number of employees increased from 651.2 thousands in 1980 to 671.6 thousands in 1999 and then decreased to 626.2 in 2000. On the other hand private sectors seem to have followed the trend of the Central government by absorbing decreasing number of people. (table 4) Thus total number of employees in organised private sector has decreased from 10.84 lakhs in 1980 to 8.07 lakhs in 2000. (table 4)

However, in many State governments higher growth of labour force in State sectors, quasi government sectors and local bodies coupled with change in the principles of wage determination in the post 1986 period led to steep increase in revenue expenditure. Prior to 1986, pay scales in the Central and the State governments were different and most State governments had lower scales. In 1986, State governments accepted the principle of common pay scales according to the recommendation of the Fourth Pay Commission. Thus increased pay scale coupled with overstaffing led to growth of wage bill and hence revenue deficit in most State government's budget (Nair, 1998, p. 43). Table 5 indicates the proliferation of revenue deficit of West Bengal during the whole 1980s which has increased from Rs. –23 crore in 1980-81 to Rs. --477 crore in 1989-90. Therefore the State's revenue deficit increased by 1973 per cent during the decade of 1980s.

Table: 5
Growth of Revenue Expenditure in West Bengal and Estimated Deficit Between 1980-81 & 1989-90 (Rs. in Crore)

Year	Total Revenue Receipts	Total Revenue Expenditure	Net Surplus (+) or Deficit (-) on Revenue Account
1980-81	**1092**	**1115**	**-23**
1981-82	**1224**	**1312**	**-88**
1982-83	**1379**	**1622**	**-243**
1983-84	**1533**	**1739**	**-206**
1984-85	**1779**	**2151**	**-372**
1985-86	**2343**	**2260**	**+83**
1986-87	**2510**	**2697**	**-187**
1987-88	**2912**	**3027**	**-115**
1988-89	**3338**	**3475**	**-137**
1989-90	**3494**	**3971**	**-477**

Source: Das, P, Public Finance in West Bengal, Firma KLM Private LTD, Calcutta,1992, pp. 20-21

Until mid1980s the revenue deficit of the States was at manageable dimension despite the fact that the States have accepted common pay scale recommended by the Fourth Pay commission. But during 1990s the problem has been accentuated at a considerable level after the implementation of the recommendation of the Fifth Pay Commission (1997). The latest round of pay revision according to the recommendation of Fifth Pay Commission is estimated to have raised expenditure on administrative services as much as by 80% in 1998-99. However, for the States in general the revenue deficit increased from 0.3 per cent of Gross Domestic product (GDP) during the mid-1980s to a little over 1 per cent of GDP in 1997-98. But following the impact of the Pay Commission revenue deficit of all States has stepped up to 2.9 per cent in 1999-00. ("Finances of State Governments", EPW, May 26, 2001, p.1903) (table 6)

Table: 6
Revenue Deficit as Percentage of NSDP in Different States Between 1990-91 & 1999-00

Year	WB	MAH	*GUJ*	KAR	*TAN*	*AP*	PNB	All States@
1990-91	**-2.9**	-0.1	-2.5	-0.3	-1.8	-0.5	-2.9	-0.93
1991-92	**-1.6**	-0.4	-1.9	-0.6	-5.2	-0.4	-2.1	-0.87
1992-93	**-1.0**	-0.8	-0.7	-0.5	-3.6	-0.3	-2.4	-0.68
1993-94	**-1.9**	-0.1	0.2	0.3	-1.2	0.4	-2.5	-0.44
1994-95	**-1.3**	0.2	0.4	-0.6	-0.6	-1.0	-2.2	-0.61
1995-96	**-1.7**	-0.4	-0.3	0.1	-0.4	-0.9	-1.2	-0.69
1996-97	**-2.6**	-0.8	-0.7	-0.8	-1.2	-3.5	-3.1	-1.18
1997-98	**-2.4**	-1.2	-1.1	-0.4	-1.3	-0.7	-3.0	-1.07
1998-99	**-4.4**	-1.6	-2.8	-1.3	-2.9	-2.4	-4.8	-2.48

1999-00	**-6.7***	NA	NA	NA	NA	NA	NA	-2.90

Source: Finances of State Governments, EPW, May 26, 2001, pp. 1901-1903

***Source: *Anandabazar Patrika*, Bengali Daily, Calcutta, 9th July, 2002**

@ For 'All States' totals are percentage of GDP at current market prices

AP= Andhra Pradesh, GUJ= Gujarat, KAR= Karnataka, MAH= Maharastra,
PNB= Punjab, TAN= Tamil Nadu, WB= West Bengal

Against the backdrop of large revenue deficits faced by almost all States the position of West Bengal needs to be discussed. We have already mentioned earlier that West Bengal has been lagging behind in terms of its own revenue mobilisation compared to the other States. We will turn to this area in the subsequent part of this study. Out of the State's total revenue receipts, own revenue mobilisation of the State is increasing at a lower pace than its growing revenue expenditure resulting in huge revenue deficit compared to the other States. In 1990-91 the revenue deficit of West Bengal as percent of Net State Domestic Product (NSDP) was 3% and it has more than doubled and amounted to 6.7 per cent in 1999-00. For all States the revenue deficit as percent of GDP has increased from 0.9 per cent in 1990-91 to 2.9 per cent in 1999-00. Therefore, revenue deficit of West Bengal was much higher than the all India average during the decade of 1990s indicating severe budgetary crisis of the State (table 6).

One of the main reasons of high level of revenue deficit of West Bengal compared to the other States, as we have mentioned above, is that the percentage share of the expenditure incurred on wages and salary and pension of the State government employees to revenue receipts of the State is continuously much higher in West Bengal than other States in India. However, the revenue expenditure incurred on pension and salary as against total revenue receipts of the State was also high during 1980s and at that time it was only comparable with Kerala. Over time Kerala has managed to decrease the expenditure incurred on the salary and pension considerably. But West Bengal has continuously incurred high proportion of expenditure on salary and pension to its total revenue receipts during the last two decades. (1980-99) (*Anandabazar Patrika*, Bengali Daily, Calcutta, July 10, 2002) (table 7)

It is worthwhile to note in this context that though almost all States have experienced such a hike in revenue expenditure due to increased pay scale following the recommendation of the Fifth Pay Commission, but the problem of West Bengal has another dimension. In 1977 when Left Front government came to power, it was decided that the government will bear the expenditure incurred on salary and pension given to almost 95 per cent of teachers in the State, engaged in different levels of education system i.e., from primary to university. Besides, it was also decided to bear a part of the expenditure incurred on salary and pension given to employees of State government and local bodies. As a consequence expenditure incurred on such item increased from Rs. 6,117 crore in 1997-98 to Rs. 12, 239 crore in 2002-03. (*Rajya Sarkarer Arthik Sankat: Karan Abong Samadhaner Path* (Financial Crisis of the State: Causes and Remedial Measures, Finance Department, West Bengal Government, 30th January, 2003, p. 2)

Table: 7
Expenditure Incurred on Pension and Salary as Percentage

to Total Revenue Receipts of Different States in 1990-91 & 1998-99

States	1990-91	1998-99
Orissa	44	85
Kerala	82	61
Rajasthann	34	65
Andhra Pradesh	48	47
Tamil Nadu	53	66
West Bengal	**78**	**86**

Source: ***Anandabazar Patrika*****, Bengali Daily, Calcutta, July 10, 2002**

Further fiscal crisis of the States consequent upon NEP

Besides the implementation of the Fifth Pay Commission other exogenous factors following the New Economic Policy (NEP) have also affected fiscal position of the States. Therefore, tax policy reform, interest policy reform, change in overdraft policy of the Central government consequent upon NEP has resulted in a declining trend of revenue receipts of the Central government which has in turn affected the resource transfers from the Centre to the States. As a result of the stagnation in the Central tax revenues, Finance Commission mandated tax revenue devolution has not increased during the decade of 1990s and the Centre has been also unable to maintain growing tempo of the Central assistance in the form of loans and grants to the States provided by the Planning Commission. Gross Receipts from the Centre as percentage to total expenditure of State governments has decreased for all States from 44.8 per cent in 1990-91 to 39.6 per cent in 1999-00. (EPW, May 26, 2001, p.1922). Contrary to this trend, during 1990s, the gross receipts of West Bengal from the Centre has not only been considerably higher than all India average but also has been showing increasing tendency. It has increased from 47.9 per cent in 1990-91 to 56.1 per cent in1998-99 though afterwards in 1999-00 it declined to 47.9 per cent. (table 8)

Different components of Central resource transfers to the States need to be mentioned separately. The percentage share of the proceeds from Central taxes to the States' own tax revenue is much higher in West Bengal than other States during 1990s. (table 9) In terms of the distribution of grants from the Centre to the States, the percentage share of grants to total expenditure of West Bengal compared to the other States is mixed which varies from one year to another. (table 10) But in terms of receiving Central loan the State has managed to get much higher share than the all India average during 1990s. (table 11)

Table: 8

Gross Devolution of Resources From the Centre to States as Percentage to Total Expenditure of the States From 1990-91 to 1999-00

Year	*WB*	**MAH**	*GUJ*	*KAR*	*TAN*	*AP*	*Punjab*	**All States**
1990-91	**47.9**	28.5	26.7	30.2	35.3	41.3	48.1	**44.8**
1991-92	**46.4**	29.4	20.8	28.7	28.3	40.6	29.9	**41.6**
1992-93	**49.8**	25.3	26.9	30.9	33.0	40.2	46.0	**43.1**
1993-94	**48.9**	27.4	29.6	30.5	36.3	43.3	39.5	**43.1**
1994-95	**49.9**	21.0	26.8	34.5	36.0	36.5	25.1	**39.7**
1995-96	**47.0**	22.2	27.1	27.3	28.6	40.4	22.2	**39.2**
1996-97	**46.3**	27.2	27.6	29.9	28.6	38.9	31.9	**40.4**

1997-98	**56.6**	24.4	29.1	32.3	30.1	39.4	25.4	**41.8**
1998-99	**56.1**	28.6	27.1	29.4	25.7	34.0	30.5	**38.9**
1999-00	**47.9**	23.8	30.7	25.9	27.6	38.8	32.9	**39.6**

Source: Finances of State Governments, EPW, May 26, 2001, p. 1922

Table: 9
State-wise Share in Central Taxes as Percentage to State's Own Tax Revenues From 1985-86 to 1999-00

Year	WB	MAH	*GUJ*	*KAR*	*TAN*	*AP*	PNB	All States
1985-86	**55.5**	21.0	26.0	33.1	33.4	40.4	17.0	**49.9**
1986-87	**55.6**	21.2	9.7	33.5	33.3	42.1	18.3	**50.2**
1987-88	**50.3**	20.7	23.6	31.9	37.1	40.3	17.0	**50.0**
1988-89	**43.5**	19.2	21.3	29.4	36.3	38.3	16.4	**47.9**
1989-90	**49.6**	21.6	19.8	32.8	38.1	37.8	16.9	**50.4**
1990-91	**48.3**	19.3	11.7	28.3	32.1	43.3	19.2	**46.9**
1991-92	**50.4**	20.5	10.6	27.0	31.9	42.4	19.0	**47.1**
1992-93	**56.5**	21.3	23.5	30.1	34.1	45.6	19.8	**51.6**
1993-94	**55.3**	20.0	24.9	26.7	32.3	44.0	17.6	**48.2**
1994-95	**48.2**	18.2	20.6	26.5	29.7	44.6	16.3	**44.6**
1995-96	**48.8**	15.3	21.4	27.4	25.2	62.2	16.7	**45.5**
1996-97	**56.8**	19.4	19.4	30.0	27.1	60.2	19.3	**49.3**
1997-98	**67.5**	12.6	23.9	33.9	31.4	47.9	21.6	**49.7**
1998-99	**56.4**	20.6	21.6	27.7	25.0	37.8	18.0	**44.3**
1999-00	**52.4**	15.6	20.0	23.1	24.6	37.4	16.0	**42.1**

Source: Finances of State Governments, EPW, May 26, 2001, p. 1923

Table: 10
State-wise Grants from the Centre as Percentage of Total Expenditures of State Governments, 1985-86 to 1999-00

Year	WB	MAH	*GUJ*	*KAR*	*TAN*	*AP*	Punjab	All States
1985-86	**13.7**	5.6	8.4	7.7	10.1	10.7	9.9	**14.11**
1986-87	**12.7**	7.4	6.6	8.5	7.9	10.6	7.7	**13.4**
1987-88	**14.0**	7.4	11.4	7.3	9.1	9.8	4.6	**13.9**
1988-89	**15.2**	7.4	9.0	8.5	9.5	10.0	7.2	**14.4**
1989-90	**7.8**	6.2	4.2	6.1	7.5	8.3	4.2	**11.1**
1990-91	**11.8**	7.3	5.4	7.7	8.8	11.8	5.4	**13.9**
1991-92	**11.9**	6.7	4.7	7.6	7.5	12.2	4.7	**14.0**
1992-93	**13.5**	6.6	6.1	8.3	8.4	11.7	8.3	**14.9**
1993-94	**13.7**	8.5	8.4	9.4	10.0	13.1	6.4	**15.7**
1994-95	**10.7**	5.1	6.3	7.9	7.7	9.2	3.6	**12.4**
1995-96	**8.5**	5.5	4.4	5.7	6.3	11.1	4.5	**11.8**
1996-97	**8.7**	6.0	6.8	6.5	6.0	10.7	4.8	**11.4**
1997-98	**7.5**	4.4	5.0	6.0	6.1	8.6	3.1	**10.6**
1998-99	**9.0**	3.4	3.7	6.0	5.4	6.6	3.6	**9.0**
1999-00	**8.4**	4.4	5.6	10.1	6.1	10.6	6.7	**10.8**

Source: Finances of State Governments, EPW, May 26, 2001, p. 1924

Table: 11
State-wise Gross Loans From the Centre as Percentage of Total Expenditure of State Governments, 1990-91 to 1999-00

Year	WB	MAH	*GUJ*	*KAR*	*TAN*	*AP*	PNB	All States
1990-91	**18.7**	12.0	16.1	9.2	11.3	12.0	35.4	**15.3**

1991-92	**14.8**	12.7	11.7	8.5	8.7	11.7	19.4	**12.0**
1992-93	**14.1**	8.7	10.6	9.4	10.0	11.3	29.3	**11.0**
1993-94	**15.0**	9.2	9.5	8.5	10.8	14.2	25.9	**10.7**
1994-95	**19.8**	7.4	10.2	13.8	13.1	12.2	15.8	**11.9**
1995-96	**19.2**	8.9	12.1	7.8	7.9	11.4	11.4	**11.0**
1996-97	**19.1**	12.0	11.4	8.9	8.5	10.1	20.1	**11.7**
1997-98	**26.6**	13.7	13.6	9.0	8.3	11.6	15.4	**13.5**
1998-99	**31.5**	15.6	14.8	10.4	8.2	13.8	21.5	**15.1**
1999-00	**26.5**	13.0	17.0	4.5	9.3	14.5	21.5	**15.2**

Source: Finances of State Governments, EPW, May 26, 2001, p. 1925

Deepening of fiscal deficit of the States

Although the State has managed to receive a higher volume of Central transfers compared to other States, its ever growing expenditure (particularly on unproductive revenue and non-Plan expenditure) could not be matched by even a corresponding increase in the total revenue receipts. Hence the gross revenue deficit of West Bengal in particular and the States in general has been rising sharply during 1990s. Therefore, recourse to market borrowing became of urgent necessity to bridge the resource gap of the State's budget. During 1990s, consequent upon NEP, the market borrowing became costlier thereby mounting the fiscal deficit of the States in general including West Bengal. (Gross Fiscal Deficit = Aggregate Expenditure -- Revenue Receipt; Decomposition of Gross Fiscal Deficit = Revenue Deficit + Capital Outlay + Net Lending) In terms of fiscal deficit West Bengal's performance has not been satisfactory either. In 1990-91 fiscal deficit of West Bengal was around 4.9 per cent of Net State Domestic Product (NSDP) of the State and has increased to 9 percent during 1999-00. In contrast, the average fiscal deficit of all States increased from 3.3 per cent in 1990-91 to 4.8 per cent in 1999-00. (table 12) ("Finances of State Governments", EPW, May 26, 2001, p. 1913 & *Anandabazar Patrika*, Bengali Daily, Calcutta, 9th July, 2002) Thus, compared to other States, West Bengal's fiscal deficit has been rising steeply indicating further higher level of dependence on market borrowing for financing its fiscal deficit which would eventually land the State into debt trap.

Table: 12

State-wise Gross Fiscal Deficit as Percentage of GSDP for Different States From 1990-91 to 1999-00

Year	**WB**	**MAH**	*GUJ*	**KAR**	*TAN*	*AP*	**PNB**	**All States@**
1990-91	**4.7**	**2.5**	**6.4**	**2.4**	**3.6**	**2.8**	**6.6**	**3.3**
1991-92	**2.8**	**2.3**	**6.1**	**3.1**	**3.5**	**2.7**	**5.0**	**2.9**
1992-93	**2.3**	**2.8**	**2.9**	**4.2**	**4.1**	**3.6**	**4.8**	**2.8**
1993-94	**3.2**	**1.8**	**1.1**	**2.9**	**2.3**	**3.1**	**4.9**	**2.4**
1994-95	**3.2**	**2.0**	**2.0**	**3.0**	**2.4**	**3.4**	**5.2**	**2.7**
1995-96	**3.7**	**2.4**	**2.4**	**2.5**	**1.6**	**3.0**	**3.6**	**2.6**
1996-97	**4.2**	**2.6**	**2.7**	**2.8**	**3.0**	**3.1**	**3.3**	**2.7**
1997-98	**4.2**	**3.0**	**3.4**	**2.1**	**3.0**	**2.5**	**5.1**	**2.9**
1998-99	**6.5**	**3.0**	**5.5**	**3.4**	**4.1**	**5.0**	**6.9**	**4.2**
1999-00	**9.0***	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**4.8**

Source: Finances of State Governments, EPW, May 26, 2001, pp. 1905-1913
***Source: *Anandabazar Patrika*, Bengali Daily, Calcutta, 9th July, 2002**
@ For 'All States' totals are percentages of GDP at current market prices

Therefore, net market borrowing of West Bengal has increased from Rs. 161.20 crore in 1980-85 to Rs. 664.66 crore in 2000-01 i.e., the net market borrowing has increased by 1283 percent during the last 15 years (1985-99) (table 13). High level of market borrowing of the State inevitably increased the net interest payment liability which was constantly eating out a major portion of its revenue expenditure and also crowding out capital expenditure and hence capital formation. This, interest payment liability of the State has more than doubled during the last two decades. Which has increased from 9.77 per cent of total revenue expenditure in 1980-81 to 21.5 per cent in 1999-00. (table 14)

Table: 13

Market Borrowing of West Bengal Between 1980-81 and 1999-00

Year	Gross Borrowing* (Rs. in crores)	Net Borrowing** (Rs. in crores)
1980-85 #	233.58	161.20
1985-90 #	616.90	534.52
1997-98	570.81	541.37
1998-99	705.76	608.41
1999-00	766.68	664.66
2000-01	727.36	664.66

***Gross Borrowing = Borrowing in Cash + Amount of Conversion**
****Net Borrowing = Borrowing in Cash-Amount Repayable in Respect of Maturing Loan**
 # The total amount of net and gross borrowing for the years 1980-81 to 1984-85 and 1985-86 to 1989-90
Sources: For the years 1980-85 to 1985-90 see Das, P, Public Finance in West Bengal, Firma KLM Pvt. Ltd. Calcutta, 1992, pp.40-41; For the years 1997-98, 1998-99, 1999-00 & 2000-01 see "Finances of State Governments", EPW, May 26, 2001, p. 1925

Table: 14

Growth of Interest Payment to total Revenue Expenditure in West Bengal Between 1984-85 & 1999-00

Year	Interest Payment as Percentage to Total Revenue Expenditure
1980-81	9.77
1984-85	10.9

1990-91	11.36
1991-92	15.06
1992-93	16.7
1993-94	16.6
1994-95	15.7
1995-96	17.9
1996-97	18.5
1997-98	19.6
1998-99	18.5
1999-00	21.5 (Budget)

Source: Different Issues of Budget At A Glance, Government of West Bengal

Fiscal indicators of West Bengal

On account of high magnitude of interest payment liabilities of the State and increased expenditure on salary and wages, resource available for capital expenditure and hence capital formation, suffered considerably during the last two decades (1980-00). Capital expenditure as percentage of capital receipts has declined from 116.15 per cent in 1980-81 to 31.51 per cent in 1999-00. The declining ratio of capital expenditure over capital receipts indicates that more than two thirds of the capital receipts i.e., borrowing is utilised for meeting current consumption needs of the State. Capital outlay i.e., that part of capital expenditure which goes to economic and social over heads as percentage of capital receipts declined from 28 per cent in 1980-81 to 11 per cent in 1999-00. (table 15)(Shankar, 2000, p. 4608)

We have already noted the trend of revenue expenditure of the State increasing at quicker pace than revenue receipts leaving huge amount of revenue deficit as well as fiscal deficit. That can be also evident from table 15 below. Revenue receipt of the State which was 98 per cent of revenue expenditure in 1980-81 declined to 59 per cent in 1999-00 indicating increasing dependence on borrowing for meeting the revenue expenditure, consequently resulting in huge magnitude of revenue deficit. Revenue deficit of West Bengal which was Rs. 23 crore in 1980-81 rose to more than Rs. 8,000 crore in 1999-2000 (RE).

Table: 15
Some Fiscal Indicators of West Bengal Between 1980-81 and 1999-2000

Item	**1980-81**	**1986-87**	**1993-94**	**1999-2000**
(1)	**(2)**	**(3)**	**(4)**	**(5)**
Revenue Receipts (Rs. in crore)	1091.70	2588.37	5921.42	11399.22
Revenue Expenditure (Rs. in crore)	1115.21	2800.82	6905.75	19455.34
Surplus (+) /Deficit (-) on Revenue Account (Rs. in crore)	(-) 23. 51	(-) 212.45	(-) 984.33	(-) 8056.12
Capital Receipt (Rs. in crore)	376. 31	852.67	1936.46	11342.94

Capital Expenditure of Which (Rs. in crore)	437.10	797.94	1067.21	3574.21
Capital Outlay (Rs. in crore)	106.69	219.80	402.04	1248.01
Surplus (+) / Deficit (-) on Capital Account (Rs. in crore)	(-) 60. 79	(+) 54.73	(+) 872.25	(+) 7768.73
Revenue Receipts as Per cent to Total Revenue Expenditure	97.89	92.4	85.75	58.59
Capital Expenditure as Percentage of Capital Receipts	116.15	93.58	55.03	31.51
Capital Outlay as Percentage of Capital Receipt	28.30	25.77	20.78	11.00

Source: For column 2, 4 & 5 see Shankar, K, Parlous State of Government Finances, EPW, December 30, 2001, p. 4608; column 3 is computed from Budget At A Glance, 1987, Government of West Bengal

Table: 16
Percentage of Revenue Expenditure to Total Expenditure Between 1980-81 and 1999-2000

	1980-81	**1986-87**	**1993-94**	**1999-00**
(1)	**(2)**	**(3)**	**(4)**	**(5)**
I. Developmental Expenditure	**70.26**	**69.13**	**62.09**	**61.06**
(1) Social Services	48.36	45.96	39.07	42.73
(2) Economic Services of Which;	21.89	23.17	23.02	18.33
(a) Agriculture and allied services	13.69	7.5	6.91	4.94
(b) Rural Development and Special Area Programme	-	7.53	8.65	6.11
(c) Irrigation and Flood Control	2.66	3.30	3.06	2.97
(d) Industry and Mineral	1.35	1.09	1.09	1.39
(e) Transport and Communication	2.61	2.55	2.53	2.22
II. Non-Developmental of Which;	**26.57**	**27.78**	**35.38**	**38.08**
(a) Interest payment	9.77	12.01	16.93	21.51
III. Compensation and Assignments to Local Bodies and Panchayat Institutions	**3.17**	**3.09**	**2.53**	**0.86**
Total Revenue Expenditure (I+II+III)	**100.00**	**100.00**	**100.00**	**100.00**

Source: for column 2, 4 & 5 see Shankar, K, Parlous State of Government Finances, EPW, December 30, 2000, p. 4609, column 5 computed from Budget At A Glance, 1987, West Bengal Government

On account of acute financial crisis, quality of expenditure of the State has tended to get deteriorated over time. Table 16 indicates the trend of developmental and non-developmental expenditure of West Bengal during last two decades (1980-81 to 1999-00). The share of developmental expenditure to total expenditure is consistently on the decline and it declined from 70 per cent in 1980-81 to 61 per cent in 1999-2000. Correspondingly the share of non-developmental expenditure to total expenditure increased from 27 per cent in 1980-81 to 38 per cent in 1999-00. Among the developmental heads the share of social services which includes education, medical, water supply, etc. declined from 48 per cent to 42 per cent during the same period. The share of economic services which include agriculture and allied activities, rural development, irrigation, energy, industry, transport and communication etc. also declined from 22 percent to 18 per cent during the same period. Rural development which comprises rural employment and other poverty alleviation programmes did also decline from 7 per cent in 1986-87 to 6 per cent in 1999-00. On the other hand interest payment which seem to have occupied the major portion of the non-developmental expenditure and increased from 9.77 per cent in 1980-81 to 21.51 per cent in 1999-00 indicating deterioration of quality of expenditure over two decades of the State. (Shankar, K, 2000, p. 4608)

Table: 17

Average Annual Growth Rate of Developmental Expenditure of Different States Between 1976-80 and 1990-95

Year	**AP**	**GUJ**	**KAR**	**MAH**	**PNB**	**TAN**	**WB**	**All States**
1976-80	20.7	17.1	17.5	18.9	20.1	13.8	**18.9**	**17.4**
1980-85	16.9	17.6	16.6	15.4	14.7	20.1	**14.7**	**16.1**
1985-90	12.7	13.7	12.7	15.8	15.0	13.7	**12.7**	**13.7**
1990-95	16.6	14.3	15.5	15.7	14.3	16.4	**13.8**	**14.5**

Source: For the year 1976-80 see RBI Bulletin, October 1988, p. 870 & for other years, RBI Bulletin February 1998, p. S 36

Table: 18

Average Annual Rate of Growth of Non-Developmental Expenditure of Different States Between 1976-80 and 1990-95

Year	**AP**	**GUJ**	**KAR**	**MAH**	**PNB**	**TAN**	**WB**	**All States**
1976-80	16.2	17.1	13.7	12.9	10.6	10.6	**12.9**	**12.3**
1980-85	18.2	13.3	25.7	21.0	23.0	17.0	**16.2**	**19.2**
1985-90	17.5	20.7	12.0	11.4	17.0	17.2	**16.7**	**18.2**
1990-95	19.2	16.9	17.1	16.4	43.4	19.0	**17.2**	**20.9**

Source: For the year 1976-80 see RBI Bulletin, October 1988, p. 871 & for other years, RBI Bulletin, February 1998, p. S 37

Table 17 shows average annual growth rate of developmental expenditure and non-developmental expenditure in West Bengal and corresponding average of all States during the last one and half decades (1980-95). Average annual growth rate of developmental expenditure of the State was 14.7 during the period between 1980-81 and 1984-85 which declined to 12.7 per cent between 1985-86 and 1989-90 and improved a little by 13.8 per cent between 1990-91 and 1994-95. The growth rate of developmental expenditure for all States average was, however, much higher than West Bengal during the same period i.e., 16. I, 13.7 and 14.5 per cent respectively. Similarly, according to another estimation development expenditure of the State as percentage to total expenditure has been showing decreasing tendency not only during the whole decades of 1990s but also compared to the other States during the period from 1985-86 to 2000-01. For West Bengal which has declined from 64.6 per cent in 1985-86 to 57.9 per cent in 2000-01 as against 70.7 per cent to 59.4 per cent for all States during the same period. (Finances of State Governments, EPW, May 26, 2001, p. 1917)

It is, however, heartening to note that the growth rate of West Bengal's non-developmental expenditure was lower than all States average during the period of 1980-95. Average annual growth rate of non-developmental expenditure of West Bengal in the above period was 16.2, 16.7 and 17.2 respectively which was lower than all States average during the same period i.e., 19.2, 18.2 and 20.9. (table 18)

Comparative budgetary position of West Bengal during 1990s

An attempt has been made in this section to compare different aspects of budgetary situation, efficiency in financial management and sustainability of West Bengal's economy compared to other States during the later parts of 1990s i.e., from 1994-95 to 1999-00. Balance of Current Revenue (BCR) of a State is an important indicator of sustainability of the State government's fiscal situation. As we have discussed above, persistent acute budgetary crisis of the State has considerable impact on the position of Balance of Current Revenue (BCR) in West Bengal. BCR is defined as revenue receipts minus Plan assistance grants minus non-Plan revenue expenditure. A positive BCR shows that the State government has surplus from its revenues for meeting Plan expenditure. Table 19 shows that West Bengal government had no surplus from current revenues in the last five years of 1990s and the negative balance has almost doubled during 1999-2000 compared to 1998-99. The problem of negative BCR of the State and consequent recourse to borrowing for Plan financing was also discussed in the chapter 4 of this study. Thus the government not only had no balance from its own revenue for meeting its Plan expenditure but most of its non-Plan expenditure had also to be met from outside sources. The position of high and ever increasing negative BCR indicated unsustainable financial condition of the State. An attempt has been made to compare the BCR of different Sates with West Bengal. However, it is quite evident from table 19 that West Bengal's BCR position is much worse than all the other States mentioned below.

Table: 19
Balance From Current Revenue (BCR) in Different States Between 1995-96 and 1999-00
(Rs. in Crore)

Years/States	West Bengal	Maharastra	Karnataka	Andhra Pradesh	Gujarat	Tamil Nadu	Punjab
1995-96	**-706**	**NA***	1550	-344	561.91	945	-151
1996-97	**-1385**	1036	1060	-2512	22.00	409	-1087
1997-98	**-1705**	--423	1337	422	-22.07	-163	-1184
1998-99	**-4178**	-1420	538	-400	-1221.73	-1914	-2308
1999-00	**-8120**	-2298	-601	-23	-1759.20	-3226	-2254

Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, for different States

Low level of fiscal management

(i) Loans and advances made by the State governments

Loans and advances given by the State governments and amount of outstanding loan and repayment of such loan is one of the most important indicators of fiscal management of any State. The State government gives loans and advances to government companies, corporations, local bodies, co-operatives non-government institutions etc. for developmental and non-developmental activities. The position for the last five years of 1990s of different States indicates that while closing balance of outstanding total loans (CL) increased significantly during 1995-2000, repayment of the outstanding loan for all States remained insignificant and has been declining over the years. (table 20)

Table 20 indicates that for all States except Punjab repayment of these loans has been declining. For Maharastra the repayment of these loans decreased from 2.84 percent in 1996-97 to 2.08 per cent in 1999-00. For Tamil Nadu the respective figures are 10.6 per cent in 1995-96 to 7.78 per cent in 1999-00 and for Gujarat from 4.48 to 2.41 per cent during the same period. And for West Bengal the repayment component of these loans not only constituted an insignificant part of the total outstanding loans but declined much faster than the other States (except Andhra Pradesh) i.e., from 2.50 per cent on the 1 April of 1995 to 0.47 per cent on 1 April of 2000. Needless to say, poor recovery of loans is a contributory factor to the worsening financial condition of the government. Despite poor recovery rate, the outstanding loan kept on increasing in West Bengal and which has increased from Rs. 3742.18 crore in 1995-96 to Rs. 6458. 97 crore in 1999-00.

Table: 20
Closing balance of total outstanding loans (CL) advanced by the State governments & percentage recovery (PR) between 1995-96 and 1999-00

(Rs. in crore)

Year	West Bengal		Maharastra		Tamil Nadu		Andhra Pradesh		Punjab		Gujarat		Karnataka	
	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR
1995-96	**3742.18**	**2.50**	NA	NA	3796	10.69	3160	50.82	4347	1.24	4528	4.48	3005.78	5.55
1996-97	**4024.04**	**25.52 @**	7347.88	2.84	4217	15.62	2641	53.27	4694	1.74	4810	4.74	3218.97	5.38
1997-98	**3840.76**	**1.21**	7998.36	2.41	3507	36.24	3280	29.23	4707	2.01	5107	2.52	3342.04	2.09
1998-99	**4920.64**	**0.61**	8342.30	3.23	3694	8.74	4916	8.05	4725	2.26	5574	4.77	3494.74	3.94
1999-00	**6458.97**	**0.47**	12018.38	2.08	4031	7.78	6667	2.93	4795	2.27	6054	2.41	3666.62	3.94

@= The increase is due to conversion of loans of SEB into equity shares (Rs. 821.03 crore) which was only a paper transaction and did not result in cash receipts
CL= Closing balance of outstanding loan made by the respective State government at the close of the year
PR= Percentage of repayments to total outstanding loan at the close of the respective year
Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments

(ii) Wastage in Public expenditure

Table: 21
Wastage in Public Expenditure in Different States Between 1995-96 and 1999-00 (Rs. in crore)

Year	West Bengal			Gujrat			Tamil Nadu		
	Wastage of Fund (WF)	Funds Blocked (FB)	Unspent Balances (UB)	Wastage of Funds (WF)	Funds Blocked (FB)	Unspent Balances (UB)	Wastage of Funds (WF)	Funds Blocked (FB)	Unspent Balances (UB)
1995-96	**100.35**	**630**	**902.55**	19.88	-	724	105	-	598
1996-97	**300.73**	**766**	**1390.41**	21.00	-	848	200	101	601
1997-98	**107.14**	**886**	**1218.35**	46.22	18.76	1347	353	116	495
1998-99	**219.90**	**949**	**1384.14**	40.14	53.96	1644	1767	215	652
1999-00	**620.64**	**1006**	**3353.23**	-	107.86	2982	599	215	764

Table: 21 (continued)

Year	Maharastra			Andhra Pradesh			Punjab			Karnataka		
	WF	**FB**	**UB**	**WF**	**FB**	**UB**	**WF**	**FB**	**UB**	**WF**	**FB**	**UB**
95-96	NA	NA	-	62	-	NA	32.95	NA	-	-	NA	3.94
96-97	97.79	NA	-	58	-	NA	102.37	0.78	-	-	NA	8.15
97-98	243.53	2681.77	-	688	-	NA	134.87	62.08	-	-	458.56	147.71
98-99	390.37	3099.23	-	1071	-	45	40.57	101.52	-	-	370.97	85.33
99-00	711.30	1705.95	-	683	-	113	140.25	1380	-	-	3894.26	37.54

WF= Amount of wastage of funds and diversion of funds
FB= Funds blocked in incomplete project or non-remunerative expenditure on in-complete project
UB= Unspent balances under deposit heads booked as expenditure at the time of their transfer to the deposit head
Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments

Funds blocked in incomplete projects, unspent balances under deposit heads i.e., booked as expenditure at the time of their transfer to the deposit head, wastage in public expenditure and diversions of funds are important indicators of fiscal management of a particular State. It is evident from table 21 that in West Bengal such wastage of funds has been increasing dramatically during the period from 1994-95 to 1999-00. Scale of wastage and diversion of funds increased by 518 per cent during the above mentioned period. And the non-remunerative expenditure on incomplete projects, therefore the amount of funds blocked in such incomplete projects has increased by 62 per cent during the same period. And unspent balances under deposit head booked as expenditure at the time of their transfer to the deposit head has increased by 271 per cent**.** An attempt is made to compare such wastage of funds with other States during the same period. It can be seen that except for Maharastra such diversion of funds is much less in other States than that in West Bengal.

(iii) Arrears of revenue

Arrears under principal heads of revenue in different departments of the State indicates inefficient management of the State's resources. The position of arrears of different departments, as alleged by the Comptroller and Auditor General (CAG) in West Bengal is somewhat understated. While most departments failed to furnish the figures of arrears of the collection at the end of March 2001. As

Comptroller and Auditor General Report expressed its doubt that if these departments of West Bengal are at all aware of the full extent of arrears in their departments. Besides, only under Sales tax Rs. 1541 crore was locked up in appeal /revision cases as on March 2001. If the arrears of these departments are accounted for the extent of arrears is bound to go up. (CAG Report Civil, 31st March 2001, p. 16) It is observed from table 22 that by and large during the last two years of the 1990s West Bengal's total arrears became much higher than the previous years. Compared to other States the position of arrears of West Bengal has been showing mixed result which varies from one year to another and does not indicate any systematic pattern.

Table: 22
Arrears in Percentage of Tax and Non-Tax Revenue Receipts of the States Between 1995-96 and 1999-00

Year	Tamil Nadu	West Bengal	Maharastra	Gujarat	Andhra Pradesh	Punjab	Karnataka
1995-96	30	**12**	NA	12	16	65	13
1996-97	39	**11**	23	43	18	42	15
1997-98	45	**13**	25	21	15	29	15
1998-99	59	**32***	26	16	18	42	13
1999-00	71	**31****	31	37	20	38	20

Source: Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments
***, ** Report of the Comptroller and Auditor General of India, Civil Report, 2000-01 includes different percentage for these two years which was 13 & 10 respectively**

(iv) Ways and Means Advances and Overdraft

Under an agreement with Reserve Bank of India, the State government had to maintain with the Bank a minimum daily cash balance of Rs 2.48 crore. If the balance fell below the agreed minimum daily cash balance on any day, the deficiency had to be made good by taking Ways and Means Advances (WMA)/Overdraft (OD) from the Bank. In addition, special Ways and Means and Advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the State government and hence reflects poor financial management of the government. (CAG Report, Civil, 31st March 2000, p. 16)

During 1999-2000 Ways and Means Advances (including shortfall) of Rs. 5336.39 crore (231 days) and Overdraft of Rs. 3485.70 crore (105 days) were obtained by the West Bengal government i.e., totalled 336 days during 1999-00. (table 23) on which the government paid interest of Rs. 21.66 crore in 1999-00. However, at the end of the year Ways and Means Advances (WMA) (including shortfall) of Rs. 597.21 crore and Overdraft of Rs. 729.09 crore was outstanding. The huge outstanding WMA and Overdraft (Rs.1326.30 crore) and the number of days (336) is the evidence of the precarious financial condition of the State during 1999-00. Compared to six other States, West Bengal took the highest number of Overdrafts/WMA and consequently paid the highest amount of interest in 1999-00. Except for Andhra Pradesh and Punjab all States during 1995-00 took less number of Overdrafts/WMA than West Bengal. However, Andhra Pradesh and Punjab took more Overdrafts/WMA than West Bengal in some years which is evident from table 23 below.

Table: 23
Ways and Means Advances and Overdraft for States Between 1995-96 and 1999-00

	West Bengal		**Karnataka**		**Maharastra**		**Tamil Nadu**		**Gujarat**		**Punjab**		**Andhra Pradesh**	
Year	**WAM/ OD**	**Inte-rest**	**WAM/ OD**	**Inte-rest**	**WAM/ OD**	**Inte-rest**	**WAM/ OD**	**Inte-rest**	**WAM/ OD**	**Inte re-st**	**WAM/ OD**	**Inte-rest**	**WAM/ OD**	**Inter-est**
1995-96	**146**	**3**	40	0.34			2	0.08	Nil	Nil	82	2	121	2
1996-97	**253**	**14**	114	2.37	-	-	-	-	Nil	Nil	171	5	148	4
1997-98	**164**	**6**	46	1.20	-	-	-	-	Nil	Nil	241	9	201	11
1998-99	**80**	**1**	Nil	Nil	-	-	38	-	6	.06	353	14	220	6
1999-00	**336**	**22**	4	0.02	19	12.18	257	8	69	1.36	250	12	291	13

Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments

WMA/OD= Ways and Means Advances /Overdraft (days)
Interest = Interest Payment on Ways and Means Advances/Over Draft taken (Rs. in Crore)

(*v) The anarchy of the excess grants*.

In this context another financial irregularity exercised by the States may be mentioned. In the Indian federation the legislature should have complete control over the public purse. Thus neither taxes be levied nor money spent without the specific sanction of the State Legislature. However, some expenditure has been incurred in excess of grants whenever the State government feels that the sanctioned budget by the Legislature is less than what it requires. In such case, the Constitution provides for their regularisation by the respective State Legislature and thus the State government is required to submit demands for supplementary grants for the approval of the legislature. A study of the audit civil reports of the States reveals anarchic conditions caused by the indiscriminate use of the provision with regard to excess expenditure and the dismal failure of the States to regularise them. Table 24 gives State-wise practice of excesses incurred but not regularised. The table also indicates that such an anarchy of unregularised excess grants in West Bengal has been much higher during the later part of the 1990s compared to most States except Assam and Uttar Pradesh. (Sezhiyan, 2002, p. 46)

Table: 24
Excess Expenditures that Remain to be Regularised in Various States as on March 31, 2001

States	**Un-regularised excess**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**Total**

	upto March 31, 1995						
Andhra Pradesh	**759**	**236**	**291**	**405**	**311**	**846**	**2,848**
Assam	**3,155**	**1,806**	**1,824**	**2,618**	**3,166**	**3,718**	**16,287**
Bihar	**5,374**	**405**	**256**	**12**	**1**	**196**	**6,244**
Goa	**43**	**0**	**15**	**12**	**1**	**0**	**71**
Gujarat	**1,950**	**564**	**534**	**734**	**981**	**1,296**	**6,059**
Haryana		**60**	**80**	**138**	**450**	**1,154**	**1,882**
Karnataka	**294**	**28**	**104**	**84**	**36**	**333**	**879**
Kerala	**1,214**	**46**	**1**	**36**	**116**	**531**	**1,944**
Madhya Pradesh	**1,233**	**252**	**224**	**303**	**1,276**	**1,585**	**4, 873**
Maharastra	**266**	**297**	**256**	**896**	**1,118**	**1,838**	**4,671**
Orissa			**107**	**990**	**126**	**2,659**	**3,882**
Punjab			**255**	**313**	**243**	**86**	**897**
Rajasthan	**968**	**468**	**527**	**63**	**64**	**19**	**2,109**
Tamil Nadu	**734**	**113**	**284**	**300**	**233**	**363**	**2,027**
Uttar Pradesh	**10,961**	**622**	**712**	**590**	**731**	**8,786**	**22,404**
West Bengal				**1,442**	**436**	**5,217**	**7,095**
All 25 States	**36,308**	**8,073**	**10,100**	**16,377**	**16,558**	**39,470**	**1,26,887**

Source: Sezhiyan, E, " The Anarchy of Excess Grants", Frontline, November 8, 2002, p. 46

Low level of fiscal management coupled with low level of revenue receipts and mounting revenue expenditure led to severe indebtedness of West Bengal compared to other States during the later part of 1990s. Interest ratio is one of the measures of indebtedness of any State. The higher the ratio the lesser the ability of the government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of West Bengal the ratio has steadily increased by nearly 100 per cent from 0.21 in 1995-96 to 40 in 1999-2000. If the loans, etc. raised through the Public Sector Companies are taken into account this ratio would be even higher. (table 24). Higher level of revenue deficits of the State led to higher level of borrowing consequently thus pushing up the interest burden further. Consequently increasing interest burden tend to push up revenue expenditure resulting in fewer resources were available for capital formation.

Table: 25
Interest Ratio* in Different States Between 1995-96 and 1999-00

Year	West Bengal	Maharastra	Karnataka	Tamil Nadu	Punjab	Andhra Pradesh	Gujarat
1995-96	**0.21**	NA	0.04	0.09	0.28	0.09	0.06
1996-97	**0.23**	0.02	0.06	0.10	0.04	0.10	0.09
1997-98	**0.26**	0.06	0.08	0.10	0.16	0.10	0.07
1998-99	**0.31**	0.10	0.09	0.13	0.39	0.11	0.06
1999-00	**0.40**	0.13	0.10	0.15	0.30	0.11	0.09

Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments
***Interest Ratio = Interest Payment – Interest Receipts/Total Revenue Receipts – Interest Receipts**

Compared to other States (except Punjab for few years) interest ratio of West Bengal remained much higher through out the whole period of 1995-96 to 1999-00. (table 25)

The State Domestic Product (SDP) is the total internal resource base of the State government which can be used for repayment of debt. An increasing Debt/SDP ratio indicates a reduction in the government's ability to meet its debt obligation which signifies increasing risk for the lender. Table 26 shows that in case of West Bengal this ratio has risen sharply from 0.29 in 1995-96 to 0.37 in 1999-00. Compared to the other States this ratio is much higher for West Bengal excepting Punjab which also shows high level of Debt/SDP ratio as West Bengal between1995-96 and 1999-00.

The State, however, feels that besides a drastic fall in the transfers from the Centre during the later part of 1990s a significant portion of the debt burden of the State was primarily due to wrong policies of the Centre. The Central Plan assistance to the States normally carries a loan component of 70 per cent. That apart, in recent years, all the new Central projects relevant for the States (such as RIDF; AIBP etc.) have 100 per cent loan component with as high as 12 per cent interest in some cases although the Centre can now raise domestic loans at only the interest rate of 7 per cent. In addition, in the case of small savings programme, since the net small savings in a State is obtained after deducting from the gross small savings collections the payment to the savers, the present Central practice of imposing this surplus again as loan to the States has created unjustified loan burden on the State. Since West Bengal occupied the first position among the States in small saving collections, the resulting loan burden is specially unjustified for the State.[132] (Budget Statement, Minister-in Charge, Finance, GOWB, 2002-03, pp. 22-23)

Table: 26
Debt/SDP in Different States Between 1995-96 and 1999-00

Year	West Bengal	Karnataka	Maharastra	Andhra Prdaesh	Punjab	Gujarat	Tamil Nadu
1995-96	**0.29**	0.20	NA	0.25	0.35	0.20	0.19
1996-97	**0.30**	0.19	0.18	0.24	0.34	0.20	0.19
1997-98	**0.32**	0.20	0.19	0.24	0.35	0.21	0.19
1998-99	**0.35**	0.21	0.18	0.25	0.36	0.24	0.20
1999-00	**0.37**	0.21	0.22	0.26	0.35	0.28	0.22

Source: Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments

132 In this context, the State has demanded full compensation of any loss of Central devolution of taxes to the States, Transfer of the surplus generated from small saving not as loan but as grants to the States or sharing the grants between the Centre and the States. Sharing at least 50 per cent of the additional burden of the States due to pay revision, reduction in the loan component in the Central plan assistance and in the Central projects and also reduction in the interest rate on the Central loans. (ibid. pp. 25-26)

The asset/liability ratio of a particular State indicates the solvency of the government. Thus the ratio more than 1 indicates the solvency of the State government. (assets are more than liabilities) Similarly asset/liability ratio of less than 1 indicates lack of solvency. However, the liabilities in this statement consists mainly of money borrowed by the State governments such as internal borrowings, loans and advances from the government of India, receipts from the Public Account and Reserve Funds. The assets comprise mainly the capital outlay, loans and advances given by the State governments and the cash balances. Even though these assets include old unrecoverable loans of a significant amount investment in shares of companies which are perpetually loss making. Thus much of these assets are not capable of generating any income. However, system of accounting in State governments do not capture all the assets and liabilities and is confined basically to the financial assets and liabilities. Even in that case the ratio of assets and liabilities of West Bengal government has shown a sharp decline from 0.61 in 1995-96 to 0.41 in 1999-00 which indicates a sustained deterioration of the fiscal management of the State.

Table: 27
Asset /Liabilities Ratio for Different States Between 1995-96 and 1999-00

Year	West Bengal	Karnataka	Maharastra	Andhra Pradesh	Punjab	Gujarat	Tamil Nadu
1995-96	**0.61**	1.05	NA	0.93	0.77	0.99	0.65
1996-97	**0.57**	1.00	1.06	0.78	0.71	0.97	0.63
1997-98	**0.55**	0.99	0.99	0.78	0.66	0.92	0.60
1998-99	**0.49**	0.93	0.93	0.72	0.60	0.83	0.52
1999-00	**0.41**	0.85	0.85	0.73	0.55	0.76	0.46

Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments

It is evident from table 27 that asset/liability ratio has been declining for all States. But for West Bengal such ratio is much lower than other States excepting Punjab for few years.

Government's expenditure is broadly classified into two categories viz. Plan-and non-Plan and revenue and capital. While Plan and capital expenditure are usually associated with asset creation, the non-Plan and revenue expenditure are identified with expenditure on establishment, maintenance & services, interest payment, salary and pension etc. Therefore, an increase in the Plan and capital expenditure can be viewed as enhancing the quality of expenditure while in contrast that increase in non-Plan and revenue expenditure more than Plan and capital expenditure denotes deterioration in quality of expenditure. However, fiscal deficit represents the total net borrowings of the government. These borrowings are applied for meeting the revenue deficit (RD) and capital expenditure (CE). The relative proportion of these applications indicates the financial prudence of the State government and also the sustainability of its operations. The revenue deficit is the revenue expenditure in excess of the revenue receipts and represents that portion of revenue expenditure which is financed by the borrowing etc. Evidently the higher the revenue deficit, the more vulnerable is the State's financial health. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowing of the government are being used to finance non-productive revenue expenditure. Thus the higher the ratio, the worse off is the State because higher ratio suggests that the debt burden is increasing without any enhancement of the repayment capacity of the State.

Table 28 shows the position of the government of West Bengal for last five years. It would be seen from table 28 that 80 per cent of the borrowed fund of West Bengal has been applied during the year 1999-2000 for meeting the revenue deficit (RD). This has reduced substantially the availability of fund for capital expenditure (CE) which has reached an all time low of only 8 per cent in 1999-2000, compared to 43 per cent in 1995-96. RD/FD ratio has gradually become higher for all States during 1995-96 to 1999-00. But it is quite evident that excepting Punjab for some years and with some few exceptions of other States the RD/FD ratio of other States are by and large much lower than West Bengal during the period. Contrary to that, CE/FD ratio i.e., , the portion of borrowed money applied for capital formation is much higher for all States than for West Bengal during the same period with of course a few exceptions.

Table: 28
Revenue Deficit (RD)/Fiscal Deficit Ratio (FD) & Capital Expenditure (CE)/Fiscal Deficit (FD) Ratio for Different States Between 1995-96 and 1999-00

Year	West Bengal		Karnataka		Maharastra		Tamil Nadu		Gujrat		Punjab		Andhra Pradesh	
	RD/FD	CE/FD	RD/FD	CE/FD	RD/FD	CE/FD	RD/FD	CE/FD	RD/FD	CE/FD	RD/FD	CE/FD	RE/FD	CE/FD
1995-96	**0.46**	**0.43**	(-) 0.04	0.85	NA	NA	0.25	0.47	0.13	0.72	0.33	0.50	0.31	1.00
1996-97	**0.63**	**0.42**	0.30	0.59	.33	.57	0.45	0.38	0.25	0.63	0.93	(-) 0.16	1.14	0.05
1997-98	**0.57**	**0.16**	0.17	0.75	.38	.48	0.64	0.69	0.34	0.56	0.60	0.39	0.29	0.45
1998-99	**0.68**	**0.10**	0.39	0.56	.48	.39	0.72	0.24	0.51	0.41	0.69	0.30	0.47	0.24
1999-00	**0.80**	**0.08**	0.54	0.42	.43	.38	0.82	0.12	0.53	0.40	0.85	0.14	0.25	0.40

Source: Report of the Comptroller and Auditor General of India, Civil Report, 1995-96 to 1999-00, different State governments

Trends of the State's own tax revenue during the last two decades

During the 1990s the trend of tax revenue of West Bengal to the percentage of Gross State Domestic Product (GSDP) at factor cost current prices is declining not only over the period between1990-91 and 1998-99 but at the same time in comparison with other States of India. During the last two years of 1990s the ratio in case of West Bengal has been showing even sharper declining trend compared to the all India average. One of the main reasons would be massive sales tax remission offered to potential investors showing willingness to set up business in the State as a part of New

Industrial Policy pursued by the State since September 1994 which was , however, also admitted by the government of West Bengal. (*Rajya Sarkarer Arthik Sankat: Karan Abong Samadhaner Path* (Financial Crisis of the State: Causes and Remedial Measures, Finance Department, West Bengal Government, 30th January, 2003, p. 5) (Table 29)

Table: 29
State's Own tax Revenue as Percentage of GSDP over 1991-99

Year	Andhra Pradesh	Gujarat	Karnataka	Maharastra	Punjab	Tamil Nadu	West Bengal	All States
1990-91	**7.6**	**8.6**	**10.0**	**7.9**	**6.8**	**10.0**	6.1	5.3
1991-92	**7.3**	**9.4**	**9.6**	**8.1**	**6.8**	**10.1**	6.1	5.5
1992-93	**7.7**	**8.6**	**9.4**	**7.2**	**6.7**	**9.7**	6.0	5.3
1993-94	**6.6**	**7.9**	**8.9**	**6.3**	**7.1**	**8.3**	5.5	5.4
1994-95	**6.1**	**7.2**	**8.5**	**6.7**	**7.6**	**9.4**	6.1	5.5
1995-96	**5.2**	**7.2**	**9.0**	**6.4**	**6.9**	**9.1**	5.7	5.4
1996-97	**5.4**	**7.0**	**8.2**	**6.2**	**6.2**	**9.7**	5.2	5.2
1997-98	**7.4**	**7.1**	**8.4**	**6.4**	**6.2**	**12.3**	4.7	5.3
1998-99	**7.0**	**7.5**	**7.7**	**5.7**	**5.9**	**8.2**	4.3	5.1

Source: "Finances of State Governments", EPW, May 26, 2001, p. 1914

According to another estimation West Bengal's own tax revenue receipts in 1999-2000 formed only 26 per cent of its total revenue expenditure which was the lowest among the major States of India. During the period of 1985-90 the State's own tax revenue constituted 48.3 per cent of the total revenue expenditure but in 1999-00 its share declined sharply to only 26 per cent. (table 30)

Table: 30

State's Tax Revenue as Percentage of Revenue Expenditure for Different States Between 1985-90 and 1999-00

Year	**AP**	**GUJ**	**KAR**	**MAH**	**PNB**	**TAN**	**WB**
1985-90	50.6	53.7	54.2	56.3	59.4	56.9	**48.3**
1990-95	47.0	57.9	58.6	59.4	47.1	52.5	**45.0**
1995-96	41.4	63.7	61.0	61.5	54.1	59.6	**46.7**
1996-97	33.9	59.1	56.5	56.2	39.5	61.1	**41.1**
1997-98	50.4	58.9	56.7	62.9	38.4	60.4	**39.8**
1998-99	51.3	66.6	59.1	55.5	37.5	57.4	**42.7**
1999-00	49.9	46.6	50.8	58.4	38.7	52.7	**26.2**

Source: Reserve Bank of India Bulletin, February 1997,pp. 41 & ibid., February 1999, pp. S24; For the year 1999-00 see Report of the Comptroller of Auditor General of India, Civil, 1999-00, different State Governments

Table: 31
Percentage Distribution of Tax Revenue of West Bengal Between 1980-81 and 1999-00

Taxes and Duties/ Year	**1980-81**	**1985-86**	**1990-91**	**1995-96**	**1999-2000**

Sales Tax	54.77	55.19	57.49	59.21	61.01
Excise Duties	9.87	5.87	7.70	6.46	7.74
Land Revenue	3.38	11.23	10.22	18.28	11.99
Stamp Duty	4.77	4.63	4.94	6.70	6.08
Entertainment Tax	3.27	3.07	1.71	0.93	0.92
Electricity Duty	3.46	3.25	1.38	1.25	2.62
Taxes on Vehicles	3.60	3.38	3.36	2.88	3.49
Taxes on Goods and passengers	9.67	6.60	5.66	0.19*	*

Source: Economic Review, Statistical Appendix, 1997-98, p. 189; Economic Review, Statistical Appendix, 2000-01, pp. 185, Government of West Bengal
*** Decrease is due to abolition of Entry Tax**

Table 31 above indicates that sales tax is one of the most important tax revenue for the State which accounted for 61 per cent of total tax receipts of West Bengal in 1999-00. Hence it is worthwhile to pay adequate attention to the problem of sales tax system of the States in general and West Bengal in particular in order to pinpoint the underlying factors responsible for the overall declining tendency of own tax revenue mobilisation of West Bengal during the last decades.

Economic decline of the State

Persistent economic decline of West Bengal during the last several decades has its negative impact on the tax effort. In a way the decline in tax effort is a reflection of the economic deterioration of West Bengal. In 1960-61 West Bengal's per capita income (at 1980-81 prices) was higher than the all-India average (Rs. 390 as against the all-India average of Rs. 306). Afterwards it started declining sharply. During the next twenty years 1960-61 to 1980-81 West Bengal has recorded the lowest growth rate in per capita income barring Madhya Pradesh and Rajasthan. In 1981-82 West Bengal's per capita income stood at Rs. 1595 as compared to the National average of Rs. 1750.(Bagchi, & Das, 1987, pp. 13-14)

Over the last two decades (1980s and 1990s) in terms of some economic indicators West Bengal has been lagging behind India. The State's per capita State Domestic Product (SDP) at constant (1980-81) prices has fallen below the per capita Gross Domestic Product (GDP) of India consistently over the last three decades. The rate of growth of GDP in India has surpassed (4.17%) the rate of growth of State Domestic Product (SDP) of West Bengal at 3.24 % during the period from 1970-71 to 1989-90. Although the State (6.8 %) seems to have caught up with the all India rate of growth of GDP (6.8 %) between 1993-94 and 1998-99 (Tenth Five Year Plan, 2002-07 p. 36). The trend rate of growth of Industrial production as a whole between 1980-81 and 1995-96 for West Bengal has lagged far behind the corresponding rate for India as whole. (Raychaudhury,& Chatterjee,1998, p. 3061) In 1980-81 West Bengal produced 9.8 per cent of industrial output of India. This share has declined to 4.1 per cent in 1995-96. Since then there has been a marginal improvement but nothing significant. (Bandyopadhyaya, 2001, p. 4788) Such decline in economic sphere has its adverse impact on tax revenue potential of the State.

But economic decline alone can not explain the dismal performance of West Bengal in terms of mobilisation of own tax revenue. The reason for low level of State's tax revenue collection, particularly of sales tax revenue can be ascribed to another structural factor namely complex and inefficient sales tax system of the State. Proceeds from sales tax, however, constitutes the major share of total own tax revenue for all Indian States which normally accounts for more than 50 per cent of total own tax revenue. An attempt has been made to re-evaluate the sales tax system prevailing in West Bengal in order to seek the reasons for its continuous bad performance regarding sales tax collection in particular and its own tax revenue mobilisation in general compared to the other States.

However, it would be also expedient to analyse the structural limitation of existing sales tax system of India in general before going into the particular problem of West Bengal. Such sales tax structure tend to particularly limit the tax potential of less developed and middle income States (in which West Bengal belongs to) as against the high income States. Against the backdrop of the general problem of sales tax structure in India the particular problem of West Bengal needs to be evaluated.

Sales tax structure of India

The problem of levy of sales tax has considerable impact on the resource base of respective States of India. The point of levy combined with differentiated rates of sales tax on the same set of commodities across the States and consequent inter-State tax competition made the resource base of the States in general and less developed States in particular much narrower. However, different systems of sales taxation have been evolved in the country. Initially three types of sales tax were levied: the single point, the double point and the multi-point, of which the multi-point have the characteristics of a general turnover tax. The single point was levied either at the first point of sale-on the ex-factory price inclusive of excise duty or at the last point of sale from the registered dealer. The double point sales tax prevailed mainly in the States of Maharastra and Gujarat where on the same commodities the tax was levied both at the first sale as well as at the semi-whole stage of sale. (Rao, & Tulasidhar, 1986, p. 290)

However, due to the administrative considerations more and more commodities have been brought within the purview of the first point levy. As against the first point tax the last point tax is the most desirable form of levy from the economic point of view. But administratively last point taxation is not preferred because large number of dealers have to be dealt with by the tax department.[133] (Purohit,1986, p. 299) Therefore, there has been a tendency of the States over the years to switch over to the first point levy.

[133] The levy of first point sales tax has, however, a distinct administrative advantage. In developing countries such as India administration of the retail sales tax is an onerous task because of the large informal sector consisting of numerous small scale dealers, many of whom operate without a fixed address and most of whom are not adequately educated to keep proper records. With the first point tax however, a large proportion of the revenue can be collected from a small number of dealers (i.e., almost 80% of the tax is paid by 12 per cent of the dealers in Gujrat, 6.5 per cent in Madhya Pradesh, 6 per cent in Karnataka and 10 per cent in Uttar Pradesh) whose return can be thoroughly scrutinised while the returns of the smaller dealers can be summarily assessed. Thus the cost of collection under the first point tax is lower, administration easier and enforcement more effective. (Rao, M.G & Tulasidar, V.B, Economic Analysis of Sales Taxation in India, Bulletin, July 1986, pp. 291-292)

Consequently the revenue from the first point levy forms an overwhelming proportion of the tax revenue in all the States. As said earlier, from the economic point of view the first point tax suffers from many shortcomings. The first point tax has a lower taxable base than the last point tax and hence with narrow base the rates have to be high in order to raise the same amount of revenue. “Finding it difficult to raise the level of sales taxes at the first point any further, the States are now resorting to additional levies like turnover tax...additional sales tax, surcharges and so on making the system totally non-transparent and the tax incidence arbitrary and unpredictable”. (Reform of the Domestic Trade Taxes in India: Issues and Options, NIPFP, 1994, p. 9)

An important phenomenon regarding sales tax in India is that not only the point of levy is different from one State to another but also there are differentiation of sales tax rates for the same set of commodities across the States. Such inter-State tax differences in sales tax rates have adverse consequences on State’s economy particularly to the economy of poor income States this area will be discussed in the subsequent paragraphs in detail. However, the point of levy and as well as the rates of tax vary from one to another States due to varying notions of equity, administrative convenience, differences in scope of exempted items and patterns of tax incentives for industrialisation. Commodities considered to be of basic necessities are exempted from the tax. Some products of the primary sector and perishables are not subjected to tax due to administrative reasons. (Rao & Tulashidar, 1986, p. 293). What is worrisome, however, is the fact that while initially the rate differentiation had been for reasons of administrative convenience, equity, and economic efficiency (lower tax rate on input and capital goods) in recent years tax competition among the States has also contributed to this differentiated sales tax rate more intensely than on account of other considerations. (Rao & Sen,1996, p. 57) Generally the food surplus States have higher rates of tax on cereals and pulses. Given that the demand for food imports is inelastic, these States tend to levy higher sales tax rates on these items in an attempt to exporting the tax burden on the residents of importing States. Similarly some industrially advanced States tend to collect a higher amount of revenue by keeping the rate of tax lower than their neighbouring States on manufactured goods which have income elastic demand to encourage cross-border purchases (tax competition) (Rao & Tulashidar, 1986, p. 293 & .Rao & Sen, 1996, pp. 57-58)

Some States with low potential tax base such as West Bengal had to forgo some of their revenues by reducing their effective sales tax rates in the face of acute competition from the neighbouring States. Sales tax which is the single largest source of revenue of West Bengal, has been reduced for number of goods on the pretext that sales tax rates in adjoining States are lower. It was expected that such reduction in sales tax rates in West Bengal would in effect boost net tax collections. Knowledgeable sources in the State, however, did not accept this justification given by the government. (Mishra, 1986, p. 33) Subsequently, it was noticed that West Bengal was forced to reduce taxes on motorised two wheelers, tractors and some machinaries because the earlier high rates had pushed the point of sale to neighbouring States with lower tax rates. So it was hoped that the reduction of sales tax rate would generate more resources to the State by inducing more sales in the State. (S.K, Diminishing Returns from Blaming Centre, EPW, April 13, 1985, p. 633) But such reality belies expectations. More often such attempts failed to help middle or poor income States including West Bengal. It would be evident from the subsequent sections in this study that contrary to the usual expectations such practice often leads to low level of buoyancy in revenue generation in all States in general and in low income States in particular

However, facing acute resource crisis of own resource mobilisation, the States tend to behave like a oligopolists, each trying to maximise net gains to their residents. Many States reduced sales and other taxes competitively to attract private investment into their respective jurisdictions which is also one of the important factors responsible for the differential effective sales tax rates as described earlier. However, the sales tax incentive usually have been provided in terms of lower tax rate on inputs, tax holidays or interest free loans of the collected tax. Such tax incentives particularly negatively affect the revenue sources of less-developed States and resulted in significant revenue loss without any commensurate gains. As they can not be expected to compete on equal terms with its strong neighbours i.e., rich income States. (Mehta, & Manay, 1992, p. 6)

The nature and extent of tax incentives offered by the West Bengal government could be evident from the comment made by Joyti Basu (The then Chief Minister of West Bengal) As he said, "In the sphere of taxation our policy has been one of providing as much fiscal relief as possible... to the smaller producers and resellers. Sales tax exemptions limits for a re-seller dealer has been raised to Rs. 2 lakh of turn over per year, which is more liberal than any other comparable industrialised State. Further a scheme of only summary assessment has been introduced for dealers whose gross turn-over does not exceed Rs. 7.5 lakh per annum. I would also mention here that West Bengal is possibly the only State in India where largest categories of industries numbering more than one hundred have been exempted from payment of sales tax. In addition, in the interest of revival of sick industries in the State we have also taken a decision to convert the sales tax dues of the sick units to soft loans with a moratorium of 3 years and repayment period varying from 6 to 9 years".[134]

The studies carried out by Kurian (2000) and later on Tenth Planning Commission (Tenth Five Year Plan, 2002-07, pp. 70-73) indicate that the net gainer in this game (i.e., the competition among the States for offering various tax concessions and other special facilities to new investors) are a group of forward States. Backward States are loser from two different sides. Firstly, in terms of losing the potential revenue and secondly not being able to attract investments from private investors as well as foreigners due to their poor infrastructure, low level of economic activities and so on so forth. Table 32 indicates that the group of forward States accounted for about two third of the total investment proposals while the group of backward States accounted for just about 28 per cent of the total amount.

Table: 32
Investment Proposals Received by the Major States of India from August 1991 to December 1999

States	**Percentage Share of Investment Proposals from**

134 Jyoti Basu Speaks, A collection of selected speeches of Jyoti Basu, Chief Minister, West Bengal, Department of Information and Cultural Affairs, Government of West Bengal,1991, pp. 41

	August 1991-December 1998
Group of Forward States	
Andhra Pradesh	8.3
Gujarat	18.7
Haryana	3.6
Karnataka	5.6
Kerala	1.1
Maharastra	18.0
Punjab	3.4
Tamil Nadu	7.2
Sub Total	65.9
Group of Backward States	
Assam	0.7
Bihar	1.2
Madhya Pradesh	7.4
Orissa	2.2
Rajasthan	3.9
Uttar Pradesh	9.4
West Bengal	3.3
Sub Total	28.1
All India	100.00

Source: Kurian, N.J, "Widening Regional Disparities in India Some Indicators" EPW, February 12, 2000, p. 545

The over all impact of these practices leads to low level of tax buoyancy for all States. During the 1980s, the buoyancy of revenue from sales tax with reference to SDP for all 14 large States suffered. This trend has been continuing despite all the additional imposition like surcharge, turn over tax etc. and this is said to have further deteriorated during the economic reform period. (Reform of Domestic Trade Taxes in India Issues and Options, NIPFP, 1994, p. 32) The buoyancy coefficients of 14 major States was 1.59 between 1970-71 and 1979-80 and subsequently declined to 1.16 between 1980-81 and 1989-90. Interestingly enough, decline in buoyancy was much sharper in low and middle income States than in high income States. The average buoyancy of forward States has declined from 1.48 during 1970s to 1.24 during 1980s as against from1.60 to 1.12 for the backward States during the same time period. For West Bengal the decline was as sharp as from 1.52 during 1970s to 1.09 during 1980s as against the all India figures which were 1.52 and 1.16 during the same time period. (table 33)

Table: 33

Buoyancy coefficients (With respect to State Domestic Product)
of Revenue from Sales Tax in 14 Major States for the year 1970s and 1980s

States/Year	**1970-71 to 1979-80**	**1980-81 to 1989-90**
Group of Forward States		
Andhra Pradesh	**1.69**	**1.36**
Gujarat	**1.40**	**1.26**
Haryana	**1.64**	**1.19**
Karnataka	**1.48**	**1.34**
Kerala	**1.60**	**1.38**

Maharastra	**1.21**	**1.12**
Punjab	**1.25**	**1.09**
Tamil Nadu	**1.62**	**1.18**
Average for group of forward States	**1.48**	**1.24**
Group of Backward States		
Bihar	**1.49**	**1.07**
Madhya Pradesh	**1.60**	**1.09**
Orissa	**1.60**	**1.18**
Rajasthan	**1.54**	**1.16**
Uttar Pradesh	**1.86**	**1.18**
West Bengal	**1.52**	**1.09**
Average for group of Backward States	**1.60**	**1.12**
All States	**1.52**	**1.16**

Source: Reform of Domestic Trade and Taxes in India: Issues and Options, NIPFP, New Delhi, 1994, p. 33

Taxation on inter-State sales tax and lack of harmony in the States' sales tax system

Taxation on inter-State sales tax has been another form of exporting tax burden from rich income States to poor income States accentuating inequity among different Sates further. A law known as the Central Sales Tax (CST) Act was enacted by the Parliament in 1956 to regulate the taxation of inter-State sales taking place, between dealers or between dealers and consumers. While powers to tax inter-State sales under the Constitution belong to the Centre, the States have been empowered to levy the CST on such sales taking place in their territories and retain the proceeds with a view to check evasion of taxes on inter-State trade sales.

Originally, the purpose of levying the CST was to "ensure that some revenue accrues to exporting States without raising unduly the burden on consumers in the importing State" (Government of India , 1977)[135] However, over time, the original purpose has taken a backseat and raising revenue became the main purpose.(Rao & Sen, 1996, p. 74; Rao, & Tulashidar, 1986, p. 296) For example to begin with, the tax was levied at the ceiling rate of only 1 per cent but over the years the ceiling rate has been raised in stages to 4 per cent in order to extract more revenue while undermining the objective of containing tax evasion. (Rao & Sen, 1996, p. 74) However, the importing State applies its local rate on the resale value of the goods imported including the CST paid to exporting State. Thus the importing States of the country have to surrender their autonomy while levying the State's Sales tax rates on account of the CST (4%) plus the rate of the State's sales tax (say 11%) would be already excessive. Therefore, the importing State is compelled to rule out any possibility of further increasing tax rate. (Purohit, 1990, p. 2732)

However, It is generally seen the case that not only the exports of more developed States are larger than their imports and the proportion of final goods in their exports is higher than in case of poorer States but also the Effective Tax Rates (ETR) on the export tax base of richer States is usually

[135] Quoted in Rao, M.G & Tulashidar, V.B, Economic Analysis in Sales Taxation in India, Bulletin, July 1986, pp. 296

higher than those of the poorer States, making tax exportation doubly problematic which varies from 3.5 per cent in Bihar to 11.5 per cent in Gujarat. Thus the residents of poorer States end up paying taxes on larger volume of imports and at higher Effective Tax Rates (table 33) (Rao & Sen, 1996, pp. 61-75) The study undertaken by Rao & Sen (1996) indicates that of the seven above average income States, all except West Bengal were net tax exporters and among less than average income States, except Andhra Pradesh and Kerala all were net importers. The extent of exportations as percentage of their actual tax collections was high in Gujarat and Maharastra i.e., about 41 per cent and 43 per cent respectively. In contrast the residents of Bihar paid the highest percentage of their tax collections to other States (92 per cent). West Bengal, as it is evident from table 33, has become net importer to the extent of 12 per cent. (Rao & Sen, 1996, pp. 61-65)

Table: 34

Consumption Share, Tax Shares and Effective Tax Rates of Different States (1987-88)

States	**Effective Tax Rates (Per Cent)**	**Tax Exported/Sales Tax Collections (per cent)**
Above-Average Income States		
Gujarat	11.47	40.78
Haryana	7.39	22.86
Karnataka	8.81	22.94
Maharastra	11.21	42.81
Punjab	7.31	20.31
Tamil Nadu	10.16	33.17
West Bengal	**6.07**	**-11.90**
Sub Total 1	**9.25**	**26.58**
Below Average Income States		
Andhra Pradesh	7.16	5.25
Bihar	3.54	-92.40
Kerala	7.93	28.67
Madhya Pradesh	4.20	-61.55
Orissa	4.00	-69.41
Rajasthan	4.74	-43.33
Uttar Pradesh	3.71	-83.02
Sub Total 2	**4.77**	**-42.21**
All Major States	6.79	0.00

Source: Rao, M.G & Sen, T.K, Fiscal Federalism in India Theory and Practice, Macmilan India Ltd, New Delhi,1996, pp. 65-66

Similar trends were evident in the study undertaken by NIPFP (1994) which shows that during 1988-91 nearly 30 per cent of the State Domestic Product (SDP) in India originated from only four States accounting for less than 20 percent of the population. A considerable part of the production of these States get exported to the remaining 21 States. With an origin based tax the producing States are able to export taxes to citizens of consuming States and thereby making inroads into their tax base. Table 35 shows that during 1988-91 the four high income States account for nearly 45 per cent of the total revenue from CST. The low income Sates are net importers and hence remain net loser in this game. (Reform of Domestic Trade Taxes in India: Issues and Options, NIPFP, 1994, p. 29) In 1999-00, though the share of high income States reduced to 39 per cent yet the share of high income States in total revenue collection from CST was much higher than low (27 per cent) and middle income States (16 per cent).

Table: 35
State-wise Distribution of Revenue from Central Sales Tax
During 1988-91 and 1999-00
(per cent)

States	1988-91®	1999-00
High Income States		
Maharastra	**21.78**	**17.81**
Gujarat	**11.89**	**10.3**
Haryana	**6.19**	**6.6**
Punjab	**5.22**	**4.17**
Sub Total	45.08	38.88
Middle Income States		
Andhra Pradesh	**5.07**	**6.05**
Karnataka	**7.84**	**5.93**
Kerala	**2.87**	**3.09**
West Bengal	**8.82**	**2.91**
Tamil Nadu	**9.71**	**8.93**
Sub Total	34.31	26.91
Low Income States		
Bihar	**5.22**	**4.54**
Madhya Pradesh	**6.85**	**5.1**
Orissa	**0.56**	**0.49**
Uttar Pradesh	**4.15**	**4.56**
Rajasthan	**1.32**	**1.56**
Sub Total	18.10	16.25
Total for all States	100.00	100.00

® Average for the Years 1988-91
Source: For the year 1988-91 see Reform of Domestic Trade Taxes in India: Issues and Options, NIPFP, New Delhi, 1994, p. 30; for the year 1999-00 see Mukhopadhyay, S, "Value Added Tax How Implementation is Going Wrong?" EPW, September 7, 2002, p. 3701

Sharp decline of CST of West Bengal

In the fifties and early sixties West Bengal was a leading manufacturing State in the country and accounted for good proportion of the inter-State exportation of commodities. Gradually the State lost its pre-eminence and registered sharp decline of the proceeds from the CST between 1960-61 to 1999-00 which is evident from table 35. In 1960-61 West Bengal's share in CST was 27 per cent which was the highest among all the States. In 1981-82, the share of the West Bengal in the total revenue from the CST came down to 11 per cent and during the subsequent years it further came down to 8.71 per cent in 1995-96. In 1999-00 this share was as low as 2.91 per cent and was the lowest among all States except Rajasthan (1.56 per cent) and Orissa (0.49 per cent). Thus over the years West Bengal has lost its position of being a leading exporting State and has become mainly an importing State. This situation put the State in a vulnerable position and consequently the State became the victim of the negativity of the CST system prevailing in the Indian federation. (table 36)

Table: 36
Percentage Share of the Each State in the Total Central Sales Tax Collection Between 1960-61 and 1999-00

States	Percentage share of each State in the total Central Sales Tax collection					
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1960-61	1970-71	1981-82	1990-91	1995-96	1999-00
Andhra Pradesh	**2.08**	**2.35**	**5.31**	**5.51**	**10.64**	**6.05**
Bihar	**12.67**	**6.48**	**6.67**	**5.23**	**-**	**4.54**
Gujarat	**4.16**	**8.38**	**10.70**	**7.53**	**11.35**	**10.3**
Haryana	**-**	**4.37**	**6.36**	**4.32**	**9.23**	**6.6**
Karnataka	**2.98**	**3.84**	**5.21**	**5.55**	**4.92**	**5.93**
Kerala	**3.92**	**2.31**	**2.26**	**2.35**	**3.41**	**3.09**
Madhya Pradesh	**5.06**	**6.91**	**5.40**	**4.82**	**6.99**	**5.1**
Maharastra	**23.02**	**24.32**	**22.36**	**15.11**	**23.6**	**17.81**
Orissa	**2.27**	**4.13**	**2.67**	**0.44**	**-**	**0.49**
Punjab	**-**	**5.73**	**5.72**	**3.72**	**4.12**	**4.17**
Rajasthan	**1.32**	**2.16**	**1.95**	**9.00**	**1.67**	**1.56**
Tamil Nadu	**10.78**	**2.96**	**9.99**	**6.76**	**14.34**	**8.93**
Uttar Pradesh	**4.16**	**3.25**	**3.96**	**2.92**	**-**	**4.56**
West Bengal	27.46	16.40	11.26	6.00	8.71	2.91
All States	100.00	100.00	100.00	100.00	100.00	100.00

Sources: For column 2, 3 & 4 see Bagchi, A & Dass, S.K, Sales Tax System in West Bengal, NIPFP, New Delhi, 1987, p. 23; for column 5, 6 & 7 see Mukhopadhyay, S, 'Value Added Tax How Implementation Is Going Wrong', EPW, September 7, 2002, p. 3701

Existing sales tax structure of West Bengal and its evolution

The study undertaken by Bagchi & Dass (1987) covering the period 1960-61 to 1981-82 throws some light on the structural complexity of West Bengal's sales tax administration. The report published every year by the Comptroller and Auditor General of India (CAG), Revenue Receipts, also provides information regarding sales tax structure of West Bengal. This section of the study attempts to take a look of the administrative problem and complexity in sales tax structure of West Bengal covering the period 1980-81 to 1999-00 with the help of above mentioned study and reports published every year.

The tax on sale and purchase of commodities is currently administered in West Bengal by four sales tax laws. These are:

The Bengal Finance (Sales Tax) Act, 1941;
The Bengal Raw Jute Taxation Act, 1941;
The West Bengal Sales Tax Act, 1954; and
The West Bengal Motor Spirit Sales Tax Act, 1974.

The Central Sales Tax Act of 1956, also has to be included in this list which empowers the States to administer and retain the proceeds from inter-State sales tax. So there are as many as five sales tax legislations operating in West Bengal. However, it was recommended that the sales tax system of the State should be consolidated and reduce the number of sales tax legilations in West Bengal. As NIPFP (1994) observes, "A consolidated law was reported to be ready for placing in the Assembly in West Bengal since long but its enactment is still to come. Taxpayers dealing with commodities subjected to tax under five legislations are still required to file as many returns every year and assessment have to be made for each of them individually (unless the case in question comes under the Self Assessment Scheme). As a result, assessments in arrears keep piling up and the government of the State is obliged to clear the backlog by declaring periodically the pending assessment as deemed to have been completed". (Reform of Domestic Trade Taxes in India Issues and Options, NIPFP, 1994, p. 13)

Sales taxation originated in the State with the introduction of a general sales tax on retail sales through the Bengal Finance (Sales Tax) Act, 1941. Bengal was the second State (then Province) in India to introduce a general (as distinguished from a selective) tax on sales. Initially the scheme was fairly simple. It was levied only on retail sale. The basic structure of the tax did not undergo any change until 1954 other than changing the rates. Evasion and the pressing need for more revenue led to an extensive change in the structure of sales taxation after Independence, particularly after the mid-fifties. In order to facilitate administration and curb evasion, the point of levy was shifted to the first-point in the case of few specified commodities. This was brought about through a separate legislation in the form of the West Bengal Sales Tax Act, 1954. The commodities coming under the first point taxation called notified commodities were originally small in number. And the scope of the first point taxation was restricted mainly to commodities whose manufacture or processing was well regulated in the State and those not in the nature of raw materials or whose import into the State was well canalised. Over the years the number of the commodities taxed at the first point increased mainly due to the administrative reason of better compliance. Thus when sales tax is levied at the first point, it is rather easier to administer it yet at the cost of loss of revenue while consequently the base becomes narrower.

In order to get rid of this problem, multiple point taxation was introduced in West Bengal by imposing the tax on intermediate sellers-that is, sale by a registered dealer to another was made taxable at the rate of 1 per cent since 1969. Earlier intermediate sales did not attract any tax and tax was leviable only at one point mostly sales by the last registered dealer to an unregistered dealer or to final consumers. Since then sales tax in West Bengal is generally levied on a multiple point basis. Under this system, tax is levied at every point of sales by registered dealers thereby increasing the total tax incidence and the ultimate price of the commodity. However, if tax is levied only at the first point of sale, the number of tiers of taxation and the cost of commodities are lessened and this helps the growth of industry and trade. But, as we have mentioned earlier, there is a risk of loss of revenue when commodities are brought under first point taxation from multiple point taxation. Thus besides having a narrow base under the first point of levy, it is not possible to realise tax in case of tax evasion at any subsequent transaction while in case of multiple point taxation it would be possible to realise tax even if one tier is evaded.

Therefore, the system of sales tax in West Bengal operating until 1999-00 was an extremely complex one. (In the budget of 1999-00 simplification of sales tax system of West Bengal was proposed which would be discussed subsequently). Starting as a simple uniform levy on retail sale of all commodities with a few exemptions, the sales tax system of the State developed into a formidable structure containing elements of both first point and last point as well as multiple point taxation. The rates too were no longer uniform and it varied all the way from 1 to 18 per cent.

It is pertinent to note that in the budget of 1999-00 with a view to promoting trade and industries within the State, simplifying procedures for better compliance, providing relief to the ordinary consumers and abolition of multiple point taxation was proposed by the Finance Minister. From 1999-00 it was suggested that out of total 550 commodities about 530 commodities be taxed at the first point of sale. And the rest 20 commodities were to be taxed at first point as well as the second point sale in order to make the tax system simple and to achieve better tax compliance. (Budget Statement, 1999-00, Minister-in-Charge, Finance Government of West Bengal, pp. 36-38)

Administrative problem of sales tax system

The decline in West Bengal tax effort in sales tax relatively to other States must be partly attributed to administrative factors besides structural complexities of the sales tax system. Undoubtedly, such complex tax structure made it extremely difficult to administer the system efficiently thereby increasing the cost of collecting tax proceeds compared to other States and has given rise to huge backlog in the sales tax arrears as well as unresolved disputes before the appellate authorities and courts. And arrears of revenue in Sales tax has been showing increasing trend too. At the end of March 1998 it amounted to Rs. 1311.85 or 46 per cent of the total sales tax receipt of the State for the year. This amount is somewhat understated. Because during the audit observation, it was found that the information provided by the sales tax department of the State about the position of arrears was not correct i. e., actual figure, as observed by CAG, would be much higher than Rs. 1311.85 crore. (Report of the Comptroller and Auditor General, Revenue Receipts, March 1999, p.11) We like turn to this area later. Now different dimensions of administrative problem experienced in the last two decades may be analysed.

Non-maintenance/defective maintenance of registers and other irregularities

The study undertaken by Bagchi & Dass (1987) covering the period from 1960-61 to 1980-81 came to the conclusion that the complete failure of the information system of sales tax system of West Bengal which had a retarding effect on better management of sales tax collection of the State. Later on during 1990s similar observation was also made in Comptroller and Auditor General (CAG) report. As the study undertaken by Bagchi & Dass (1987) felt that the most disheartening aspect of the sales tax administration of the State was the virtual collapse of the information system. There was no reliable information about the number of dealers assessed for tax from year to year or about the aggregate volume of their turnover. Even the total number of dealers coming under the sales tax net every year is not known. (Bagchi & Dass,1987, p. 22)

In 1990 CAG report (Revenue Receipts) came to a similar conclusion. This report observed that notification of number of registered dealers had not been maintained properly. Adequate attention had not been paid to the proper maintenance of various sales tax registers with the result that no check had been or could be exercised in order to ensure that the dealers had actually submitted their returns in time and whether taxes due in all cases had been collected and refunds of tax where due had been made in time etc. (The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, March 1990, p. 26)

The increase in the number of registered dealers ranged from 1.25 to 3.50 per cent between 1989-90 and 1991-92. However, the Commercial Taxes Directorate of the State could not furnish consolidated information about the number of applications received for registration, applications rejected, registrations granted and cancelled during the last 3 years ending on March 1992. As a result the overall picture of new registration, the pendency of applications for registration and cancellation of registration certificates could not be ascertained in audit. (The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, March 1993, p. 12)

The CAG report went on to say that under the sales tax laws, various registers like Registers of Dealers, Registers of Cancellation of Registration Certificate, Register of Security Deposit, Register of Information received from Central Section etc. are required to be maintained. In the course of audit it was revealed that the Register of Dealers and Register of Cancellation of Registration Certificate were not being maintained properly. And the Register of Security Deposit and the Register of Information received from Central Section were not at all maintained. In the absence of these important registers and lack of improper maintenance of some others, it could not be ascertained in audit whether the security demanded was obtained, proper action on the directives of the Central Section was taken, returns were submitted by dealers at periodical intervals, tax liability of the registered dealers was timely/correctly determined and the unused declaration forms were surrendered by the dealers whose registration certificates were cancelled. (The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, March 1993, pp. 19-20)

Lack of regular market survey for registration

Lack of regular market survey to detect dealers liable for registration but not yet registered resulted in evasion of tax. A suitable machinery for conducting regular market surveys is required to detect the dealers liable for registration but carrying on business without registration. No such machinery for carrying out regular market survey has, however, been provided in the State with the result that many eligible dealers remained unregistered and evaded payment of tax. However, the department conducted surprise raids in vigilance operation in order to detect unregistered dealers on the basis of information received beforehand but no regularity of such raid is maintained. (The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, March 1993, pp. 12-13)

Outstanding inspection reports and audit observations

One of the important irregularities of sales tax collection is related to increasing number of outstanding inspection reports and audit observations by Comptroller of Auditor General. During the audit observations (conducted by CAG) incorrect assessments, under-assessments, non-levy or short levy of sales taxes as well as irregularities and deficiencies in initial records of assessment are usually noticed. Some audit observations which could not be settled on the spot are communicated to heads of offices and to higher authorities through inspection reports for prompt settlement. However, table 36 indicates number of outstanding audit observations which were yet to be settled by the sales tax department of the respective States until December 1999.

It should be noticed that earliest year to which inspections are related is 1988-89 for West Bengal. That means some cases were not settled even after 10 years lapsed. The amount of money involved in this outstanding assessment of sales tax was Rs. 74.79 crores of West Bengal. And percentage of money involved in this pending assessment to sales tax of West Bengal is 2.39. (table 37)

Table: 37
Outstanding Inspection Reports and Audit Observations in Different States as in 1999

States	Number Of inspection reports	Number Of audit observations	Money Involved (Rs. in crore)	Earliest years to which inspection report relates	Total sales tax receipts 1998-99 (Rs. crore)	Percentage of money involved to total sales tax collection
Karnataka	1584	5178	74.99	NA	4265.17	1.75
Andhra Pradesh	2067	6183	159.35	1992-93 to 1998-99	5251.34	3.03
Gujarat	NA	NA	NA	NA	-	-
Tamil Nadu	1523	27947	41.98	NA	6112.94	0.68
Punjab*	1046	2771	75.01	NA	1489.65	5.03
Maharastra	1895	4762	47.34	1989-90 to 1998-99	8066.61	0.58
West Bengal	355	1,446	74.79	1988-89	3117.97	2.39

Source: The Report of the Comptroller and Auditor General (CAG), Revenue Receipts, different State governments, 1999

Arrears in sales tax collection

The system of collection and recovery of arrears of sales tax and its effectiveness and deficiencies of the administration is analysed time to time by CAG in its reports. The CAG expressed its concern over the fact that the sales tax department was ignorant of the full extent of arrears and the department didn't have a system to monitor collection and ensure accountability for lapses. Some charges were pending realisation for periods varying up to 25 years because of inaction and failure of the department to initiate follow up action for recovery of arrears of the department. (The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, 1999, pp. 9-11)

We must take a closer look at the sales tax arrears which laid at different stages in order to get the total amount of arrears of sales tax collection of the State. Until 31st March 1998 total arrears of Rs. 1311 crore lied at various levels i.e., with the department, in appeals, in revision and review, in High Court, Supreme Court and in certificate proceedings. (table 38) As we have mentioned before the total amount of arrears of Rs. 1311 crore is somewhat understated. While as per information furnished to CAG by the Directorate, the amount involved in appeal cases as on 31st March 1999, was Rs. 155 crore (which involved 24,145 cases). However during the test check by CAG it was noticed that the amount pending in appeal was Rs. 297.68 crore in respect of 1,944 cases in 5 circles only out of the total17 circles. Thus it is quite evident that actual amount of total arrears would be much higher than Rs. 1311 crore. (Table 38) (The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, 1999, p. 11) An attempt has, however, been made to compare the position of arrears of West Bengal with other States during 1998-99. (table 39)

Table: 38
Position of Sales Tax Arrears at Different Stages in West Bengal up to March 1998

Year	**Arrears pending collection at the end of the year (Rs. in Crore)**						**Sales tax receipt (Rs. in crore)**	**Percentage of arrears to total sales tax receipts**
	With the department	**In Appeals**	**In revision and review**	**In High Court and Supreme Court**	**In certificate proceedings**	**Total**		
1994-95	310	190	-	-	302.48	802.48	2091.18	39
1995-96	316	165	-	-	384.40	865.40	2447.23	35
1996-97	309	136	-	-	446.80	891.80	2704.16	33
1997-98	343.21	155	55.64	232.61*	525.39**	1311.85	2844.31	46

Source: The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, March 1999, p. 11

Table: 39
Total Arrears in Sales Tax Collection at Different Stages of Different States Until 1999
(Rs. in crore)

States	**Total sales tax receipts**	**Total arrears in sales tax at different stages As until 1999**	**Arrears more than five years Old**	**Percentage of total arrears in sales tax receipts**
Maharastra	8066.61	4250.55	852.61	52.69
Karnataka	4265.17	NA	NA	-
Andhra Pradesh	5251.34	1200.65	254.04	22.86
Tamil Nadu	6112.94	5104.15	1046.15	83.49
Punjab	1489.65	125.41*	39.21	8.41
Gujarat	4795.84	1101.48	268.85	22.96
West Bengal	**3117.97**	**1311.85****	**269.80**	**42.07**

Source: The Report of the Comptroller and Auditor General, Revenue Receipts, different State governments, 1999

- **Does not include arrears in respect of Amritsar-I and II and Ludhiana I and III districts.**
- **** This figure is related to as on 31st March 1998**

Arrears in assessment of sales tax

The increasing number of arrears of assessment of sales tax indicate inability of the sales tax department to dispose off all the assessment cases in time. The details of cases due for assessment and cases disposed of during the year and number of cases pending finalisation during the years1997-98 and 1998-99 as furnished by the Sales Tax department in respect of sales tax is evidenced in table 40. Table 40 indicates that the percentage of arrears cases due for assessment to total cases pending at the end of 1997-98 and 1998-99 are 64 and 56 respectively. Therefore only 35 per cent of total cases due for assessment was disposed of in 1997-98 and only 44 per cent in 1998-99. An attempt is made to compare the arrears in assessment of sales tax of West Bengal with other States during 1998-99. As it would be evident from table 40 that all other States had higher percentage of cases disposed of during the year 1998-99 except Maharastra (32 per cent) and Gujarat (39 per cent) as against 44 per cent in West Bengal. (table 41)

Table: 40
Arrears in Assessment of Sales tax in West Bengal in 1997-98 and 1998-99

Year	**Opening Balance**	**Cases due for assessment during the year**	**Total**	**Cases finalised during the year**	**Balance at the close of the year**	**Percentage of column 5 to column 4**	**Percentage of column 6 to column 4**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1997-98	1,58,637	2,53,530	4,12,167	1,46,668	2,65,499	35.58	64
1998-99	2,65,499	2,52,958	5,18,457	2,27,570	2,90,887	43.89	56

Source: The Report of the Comptroller and Auditor General, Revenue Receipts, Government of West Bengal, March 1999, p. 6

Table: 41
Arrears in Assessment of Sales tax Collection for Different States in 1998-99

States	**Total cases due for assessment**	**Total cases finalised during the year (1998-99)**	**Closing balance at the end of the year (1998-99)**	**Assess ment finalised**	**Percentage of column 4 to column 2 (Assessme nt due)**
(1)	**(2)**	**(3)**	**(4)**		**(5)**
Maharastra	2023756	644479	1379277	32	68.15
Karnataka	1432053	709974	722079	50	50.42
Andhra Pradesh	408562	316693	91869	78	22.48
Tamil Nadu	196060	161854	34206	83	17.44
Gujarat	2655041	1016360	1638681	39	61.71
West Bengal	**518547**	**227570**	**290887**	**44**	**56.09**

Source: The Report of the Comptroller and Auditor General, Revenue Receipts, different State governments, 1999

Administrative problem regarding granting sales tax incentives

Most States provide a variety of exemptions either to lessen the regressivity of the tax, or as incentive to industry. Industrial incentives take various forms such as deferment of sales tax, sales tax holiday, repayment of term loans from sales tax collected etc. Such incentives are generally limited to new industrial enterprises or units located in specific areas, small scale enterprises and the amount of sales tax forgone or deferred under the incentive provisions is usually tied to the amount of fixed capital investment by the enterprises. (Reform of Domestic Trade Taxes in India: Issues and Options, NIPFP, 1994, p. 13)

In West Bengal the following incentive schemes were introduced between April 1976 and June 1990 to promote the growth and development of industries in the small, medium and large scale sectors. The West Bengal Incentive Schemes, 1993, also provides set of incentive schemes for newly set up small scale industrial unit.

(i) Exemption[136] of sales tax for newly set up small industries.
(ii) Deferment[137] from payment of sales tax for newly set up medium and large scale industries[138] and their expanded portion.
(iii) Remission[139] of tax for newly set up medium and large scale industries and their expanded portion.

The implementation of the incentive schemes is governed under the Sales Tax Statutes and also under the relevant schemes framed by the Commerce and Industries Department of the State. It is necessary to evaluate the implementation of the incentive since allowance of exemption and concession of sales tax involves forgoing of considerable revenue. It is essential that such allowance should be recorded for the sake of subsequent evaluation of the schemes. A review of records in audit made by Comptroller of Auditor General of India (CAG) revealed that no control register in respect of incentives of sales tax exemptions was being maintained either at the level of the official issuing Eligibility Certificate (EC)[140] or at the level of the assessing officers maintaining records of the amounts of tax exempted and names of beneficiary units to whom they were granted.

In respect of incentives under deferment and remission schemes, a control register was, however, maintained by the Special Cell, wherein it was indicated that during the period from 1990-91 to 1994-95, 74 industrial units out of the total number of 121 units availed interest-free sales tax deferment of Rs. 20.74 crores and 58 units out of the total number of 115 units availed of sales tax remission of Rs. 15.72 crores. Incentives availed of by the remaining units in the shape of deferment and remission of tax could not be ascertained in audit as the control register was duly updated. This being

[136] 'Exemption' denotes non-levy of a tax for a prescribed period (Report of the Comptroller of Auditor General of India, Revenue Receipts, Government of West Bengal, 1996, pp. 15)
[137] 'Deferment' denotes delayed payment of tax up to a prescribed limit after expiry of prescribed period. (ibid.)

[138] 'Medium and large scale industrial unit' means a unit having gross value of fixed capital assets exceeding Rs. 10 lakhs as per prescribed norms (ibid.)

[139] 'Remission' denotes relinquishment of tax up to a prescribed limit (ibid.)
[140] To avail of the benefit of the sales tax concessions, the eligible unit has to obtain an EC from the Assistant Commissioner of Commercial Taxes concerned . The EC specifies the category of unit, it's location, type of commercial goods to be manufactured date of first sale of such goods produced or first commercial production. The EC shall be granted on application and shall be valid for a period not exceeding twelve months at a time, subject to renewal for every period of twelve months thereafter on application. (Report of the Comptroller of Auditor General of India, Revenue Receipts, Government of West Bengal, 1996, pp.18)

pointed out (between January and May 1996) in audit conducted by CAG the assessing officer admitted that no control register in respect of incentive of tax exemption schemes in the form of deferment and remission was properly being maintained. (Report of the Comptroller of Auditor General of India, Revenue Receipts, Government of West Bengal, 1996, pp. 18-19) Furthermore, It was noticed that in several occasions irregular exemption of tax was granted due to failure of the Commercial Taxes Directorate to exercise control over the issue of EC and lack of co-ordination between the Commercial Taxes Directorate and the Industries department. (ibid., pp. 18-25)

Several times grant/renewal of ECs without valid registration of the small scale industries (SSI) department resulted in substantial loss of revenue of the State. Valid certificate of registration from the SSI department is necessary for receiving grant/renewal of EC for availing tax exemption. It was observed in a CAG audit that there was no control over the issuance of EC by the Commercial Taxes Directorate. ECs were being issued without submission of registration certificates. Such invalid ECs resulted in a loss of revenue of to the extent of Rs. 179.22 lakhs in 26 small scale units over the period from May 1986 to December 1993. (Report of the Comptroller of Auditor General of India, Revenue Receipts, Government of West Bengal, 1996, pp. 18-19)

However, there are several examples of inefficiency in implementing incentive schemes by the Commercial Tax Directorate of which following are noteworthy. Under Bengal Sales Tax Rules, 1941 an industrial unit shall be eligible for tax incentives subject to fulfilment of the prescribed conditions. Violation of prescribed conditions for the grant of EC resulted in irregular allowances of tax exemptions. Failure of the Department to maintain control records in order to monitor the expiry/rejection of EC led to allowance of undue tax concession. In several times tax exemptions were granted even after expiry /rejection of EC. In several occasions tax exemptions were allowed beyond the prescribed period and tax exemption were granted without Eligibility Certificate (EC). All these resulted in considerable amount of revenue loss of the State.

Cost of collection of sales tax

Cost of collection is one of the important indicators of efficiency in the sales tax system. An attempt has been made to compare the cost of collection of sales tax in West Bengal for the years 1997-98 and 1998-99 with other States. The cost of collection of sales tax in West Bengal is much higher compared to other States during the two time periods 1997-98 (1.42) and during 1998-99 (1.95) indicating inefficient administration of sales tax structure. (table 42)

Table: 42
Cost of Collection of Sales Tax in Different States in 1997-98 and 1998-99

States	Cost of collection of sales tax	
	1997-98	1998-99
Maharastra	0.82	0.68
Punjab	1.58	1.90
Gujrat	1.18	0.93
Karnataka	0.99	0.96
Andhra Pradesh	1.30	1.32

Tamil Nadu	**1.24**	1.62
West Bengal	**1.42**	**1.95**
All India Average	**1.28**	**NA**

Source: Different issues of CAG Report, Revenue Receipts, Different State Governments

Declining trend of the States' non-tax revenue

Non-tax revenues of a State consists of administrative receipts from general, social and economic services, surpluses from departmentally run undertakings as well as interest receipts and dividends from non-departmental public enterprises. Non-departmental public enterprises mainly comprises Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Banks & Societies. This study intends to concentrate on the performance of Statutory Corporations and Government Companies of West Bengal during 1990s. An attempt has also been made to compare the State's performance as regards non-departmental enterprises with other States during 1990s.

The percentage share of non-tax revenue of West Bengal to the Gross State Domestic Product (GSDP) has not only been quite low but also has been declining over the whole decade of 1990s. In 1991 the non-tax revenue constituted 0.6 per cent of its GSDP but it decreased to only 0.3 per cent in 1998-99. In contrast, for all States the percentage of non-tax revenue to Gross Domestic Product (GDP) were 1.6 per cent in 1990-91 and 1.4 percent in 1998-99 respectively. However, it is quite evident that West Bengal's non-tax revenue over 1990s and also compared to other States has been declining significantly. (table 43) Likewise, West Bengal's non-tax revenue as proportion to total revenue expenditure was as low as 3 per cent in 1999-2000 (BE) which was the lowest among all the States. (Shankar, K, 2000, p. 4608).Table 44 below indicates the declining trend of non-tax revenue as percentage of total revenue expenditure compared to other States during the period from 1985-86 to 1999-00. The non-tax revenue as percentage of total revenue expenditure has been decreasing from 6.3 per cent during the period of 1985-90 to 3.0 per cent in 1999-00. As it is evident from table 44 that the percentage share of non-tax revenue to total revenue expenditure for other States is much higher than West Bengal during 1985-86 and 1999-00.

Table: 43

Non-Tax Revenue of Different States as Percentage of Gross State Domestic Product (GSDP) from 1990-91 to 1998-99

Year	AP	GUJ	KAR	MAH	PNB	TAN	WB	All States
1990-91	**2.5**	**1.4**	**2.2**	**2.8**	**1.3**	**1.2**	0.6	1.6
1991-92	**2.2**	**3.7**	**2.1**	**2.4**	**7.2**	**3.0**	0.6	1.9
1992-93	**2.3**	**2.9**	**2.4**	**2.1**	**1.3**	**1.4**	0.6	1.7
1993-94	**2.4**	**2.8**	**1.7**	**1.9**	**1.4**	**1.2**	0.6	1.8
1994-95	**2.3**	**2.3**	**1.7**	**2.1**	**5.9**	**1.2**	0.6	2.1
1995-96	**2.2**	**2.2**	**2.1**	**1.6**	**4.6**	**1.1**	0.5	1.9
1996-97	**2.0**	**1.8**	**1.9**	**2.0**	**4.4**	**1.1**	0.5	1.7
1997-98	**1.8**	**2.4**	**1.6**	**1.7**	**4.8**	**1.6**	0.5	1.6
1998-99	**1.9**	**2.7**	**1.6**	**1.4**	**2.7**	**1.0**	0.3	1.4

Source: 'Finances of State Governments', EPW, May 26, 2001, p. 1915

Table: 44
Non Tax Revenue as Percentage of Total Revenue Expenditure of Different States, 1985-00

Year	AP	GUJ	KAR	MAH	PNB	TAN	WB
1985-90	15.2	18.5	16.3	20.6	14.1	9.0	**6.3**
1990-95	15.5	18.0	12.7	18.6	20.5	8.6	**4.4**
1995-96	14.9	13.4	12.5	17.2	20.2	6.3	**4.6**
1996-97	11.3	15.3	13.2	18.0	28.1	6.8	**4.0**
1997-98	12.1	14.5	11.0	15.5	31.5	6.5	**4.1**
1998-99	12.0	13.9	10.8	12.2	34.6	5.7	**3.9**
1999-00	13.53	17.06	10.57	13.32	23.16	6.54	**3.0**

Source: Reserve Bank of India Bulletin, February 1997, p. 42 & ibid., February 1999, p. S25; For the year 1999-00 see Report of the Comptroller of Auditor General of India, Civil, 1999-00, Different State Governments

The study undertaken by Rao & Mundle (1992) covering the the decade of 1980s indicates that the non-tax revenue in total revenue receipts of all States was not only low but also has showed declining tendency over the whole decade of 1980s. The only item of non-tax revenue to have registered high growth rate in the 80s is the cess and royalty on mines and minerals. However, table 45 indicates the inter-State difference in the growth rate of non-tax revenue both after excluding and including royalty and cess on minerals between 1980-81 and 1988-89. As it is evident from table 45 that the rate of growth of non-tax revenue ranging from as little as 0.2 per cent per annum in the case of West Bengal to as much as 33 percent in the case of Bihar after including royalty and cess on minerals. All States as indicated from table 45 had insignificant contribution to non-tax revenue but of them West Bengal's performance was the worst. (Rao & Mundle,1992, pp. 108-109)

Table: 45

Inter-State differences in Growth of Non-Tax Revenue of the States over

1980-81 to 1988-89 (Per cent)

States	**Growth Rate of Own Non-Tax Revenue Excluding Royalty and Cess on Minerals**	**Growth Rate of Own Non-Tax Revenue Including Royalty and Cess on Minerals**
Andhra Pradesh	16.68	16.41
Bihar	15.18	32.99
Gujrat	11.30	17.82
Haryana	12.44	13.16
Karnataka	13.24	13.18
Kerala	1.68	1.82
Madhya Pradesh	10.61	15.73
Maharastra	11.01	11.53
Orissa	12.40	10.06
Punjab	8.58	8.59
Rajasthan	6.66	8.68

Tamil Nadu	14.26	14.19
Uttar Pradesh	10.20	10.60
West Bengal	**-0.64**	**0.18**
All States	**9.88**	**14.23**

Source: Rao. M.G & Mundle, S, "An Analysis of Changes in State Government Subsidies: 1977-87", Bagchi, A, Bajaj, J.L & Byrd, W.A (ed.) State Finances in India, NIPFP, Vikas Publishing House, New Delhi, 1992, pp. 125-126

Non-tax revenue from non-departmental sources

Now we can discuss about the contribution of non-departmental public enterprises in the form of interest receipts and dividends to the States non-tax revenue. Though the contribution of non-departmental public enterprises does not constitute any formidable part of the own non-tax revenue of the State, the significance of non-departmental enterprises lies elsewhere. The State Government every year invests on non-viable, non-profitable public sector enterprises in terms of equity, loan, grant and subsidy, which forms considerable portion of budgetary outgo. Over the years the paid up capital by the State government has been increasing and on the other hand contribution by the public enterprises has been decreasing although the fact that these enterprises have been making loss. Besides, guarantee given by the State governments to these loss making companies, constitutes a substantial amount of liabilities of the government, has been also increasing resulting in deterioration in the State finances.

As on 31st March 1999 there were 65 government companies including 11 subsidiaries and two companies (under the purview of Section 619B of the companies act, 1956) and 12 Statutory companies were in operation. These have been engaged in different production, development, financing, and trading activities like engineering, textiles, iron and steel, electronics, agriculture and dairy, tourism, forest, transport, power, chemicals etc. (Different issues of CAG, Commercial)

Aggregate paid up capital and the share of the government of West Bengal in total paid up capital

During1990-91 total investment in Government companies was Rs. 2302.93 crore, of which long term loan was Rs. 1616.29 crore and aggregate paid up capital in these Government companies were only Rs. 686.64 crore. Of the total paid up capital (Rs. 686.64 Crore) the share of the State was Rs. 666.89 crore, the share of the Central government was Rs. 5.58 crore and the share of holding companies and others were Rs. 14.17 crore. At the end of 1997-98 the total investment was Rs. 3939.70 crore in Government Companies. Of which share of long term loan was Rs. 2333.25 crore and aggregate paid up capital was Rs. 1606.45 crore. Of the total paid up capital (Rs.1606.45 crore) the share of the State was Rs. 1585.94 crore, the share of Centre was Rs. 7.66 crore and the holding companies and others was Rs. 12.94 crore. As it can be seen that over the period the share of long term loan which remain outstanding for longer period and larger part of which remain irrecoverable has been increasing and the share of paid up capital has been showing a declining tendency. (table 46)

Table: 46
Investment by the State, Central and Others in Government Companies During 1990-91 to 1999-00

Year	Long term loan	Percentage of long term loan to total investment	Paid up capital	Percentage of paid up capital to total investment	Total investment
1990-91	**1616.29**	**70.18**	**686.64**	**28.82**	**2302.93**
1991-92	**1651.27**	**67.93**	**779.39**	**32.07**	**2430.66**
1992-93	**1704.49**	**67.36**	**825.59**	**32.64**	**2530.08**
1993-94	**1971.01**	**68.03**	**926.12**	**31.79**	**2897.13**
1994-95	**1822.44**	**56.38**	**1409.54**	**43.62**	**3231.98**
1995-96	**1838.04**	**53.45**	**1600.25**	**46.55**	**3438.29**
1996-97	**1786.75**	**53.48**	**1553.81**	**46.52**	**3340.56**
1997-98	**2333.25**	**59.22**	**1606.45**	**40.78**	**3939.70**
1998-99	**4035.39**	**70.77**	**1649.20**	**29.23**	**5701.84**
1999-00	**6911.93**	**79.46**	**1710.86**	**20.54**	**8698.51**

Source: Report of the Comptroller and Auditor General of India, Commercial, Government of West Bengal, different issues

It can also be seen from table 47 that the share of holding companies in the total paid up capital is decreasing over the years. The share of holding companies as evidenced from table 47 has declined from Rs. 20.14 crore in 1992 to Rs. 8.62 crore in 1998. On the other hand the share of the Centre has increased at a lower pace and increased from Rs. 5.58 crore in 1990-91 to Rs.7.66 crore in 1997-98 i.e., an increase of 37.27 per cent. In contrast to that the share of the State government has been increasing dramatically over the years from Rs. 666.89 crore in 1990-91 to Rs. 1585.94 crore in 1997-98 i.e., it has increased by 137 per cent. This indicates that economically non-viable government companies have been gradually becoming increasingly dependent on the State government for their existence.

Table: 47

Share of the State Government and Holding Companies in Total Aggregate Paid up Capital During 1991to 2000

As on 31st March of the Year	Number of Government Companies	Share of the Central Government (Rs. in crore)	Share of the State Government (Rs. in crore)	Share of Holding Companies (Rs. in crore)	Share of Others (Rs. in crore)	Aggregate Paid up Capital (Rs. in crore)
1991	**57 (7)**	**5.58**	**666.89**	**14.17 ***	**-**	**686.64**
1992	**61 (7)**	**3.76**	**750.71**	**20.14**	**4.78**	**779.39**
1993	**63 (7)**	**3.86**	**790.57**	**24.03**	**7.13**	**825.59**
1994	**63 (7)**	**3.86**	**899.21**	**16.50**	**6.55**	**926.12**
1995	**60 (7)**	**5.89**	**1386.86**	**13.53**	**3.26**	**1409.54**
1996		**-**	**-**	**-**	**-**	**-**
1997	**60 (9)**	**7.66**	**1533.65**	**8.22**	**4.28**	**1553.81**
1998	**61 (10)**	**7.66**	**1585.94**	**8.62**	**4.23**	**1606.45**
1999	**65 (12)**	**-**	**-**	**-**	**-**	**@**
2000	**69 (11)**	**-**	**-**	**-**	**-**	**#**

Source: Report of the Comptroller and Auditor General of India, Commercial, Government of West Bengal, different issues

Figure in brackets denotes number of Statutory corporations of the respective years

* This amount include share of others

@ # The separate amount of share of the State Government, Central government and holding companies in total paid up capital is not available during 1998-99 and 1999-00.

Guarantees given by the State government to government companies and statutory corporations.

Guarantees are given by the State governments for due discharge of certain liabilities like repayment of loans, share capital, etc, raised by the statutory corporations, government companies and co-operative institutions etc. and payment of interest and minimum dividend by them. They constitute contingent liability of the State. (Report of the Comptroller and Auditor General of India (CAG), Civil, Government of West Bengal (GOWB) 2000-01, p. 19)

Guarantees are also given by the State in order to compensate for declining share of capital expenditure which has adverse effect on infrastructural development. Over the years revenue expenditure of State governments has increased steadily on account of salaries, pensions, interest payments and other administrative expenses. Thus increasing revenue expenditure has been crowding out capital expenditure of the States. Therefore, in order to meet the growing requirements of financing infrastructure and compensate for the decreasing capital expenditure States have been compelled to resort to issuing larger and larger amount of guarantees on behalf of the public sectors which are entrusted with infrastructural and other developmental activities. (Thorat & Roy, 2001, pp. 3-4)

Article 293 of the Constitution empowers the State governments to give guarantees within such limit as may be fixed from time to time by the State legislature. But no law under Article 293 of the Constitution had been passed by West Bengal State Legislature laying down the maximum limits within which government may give guarantees on the security of the Consolidated Fund of the State government. Thus in reality, implicit ceiling in government guarantees is the size of the Consolidated Fund. (CAG, Civil, GOWB, 2000-01, p. 19)

Outstanding guarantees given by the States, however, indicate the risk of exposure of a State government and should therefore be compared with the ability of the government to pay with its revenue receipts. Thus the ratio of the total outstanding guarantees to total revenue receipts of the government would indicate the degree of vulnerability of the State government. The ratio of outstanding guarantee to total revenue receipt of West Bengal has increased from 0.29 in 1996-97 to 0.38 in 1999-00 indicating an adverse trend. However, other States, shown in table 48, had considerably higher ratio more than even West Bengal, during the period from 1995-96 to 1999-00 indicating a vulnerable position of the States' budget in general.

Table: 48
Ratio of Outstanding Guarantees to Total Revenue Receipts of Different States Between 1995-96 and 1999-00

Year	West Bengal	Maharastra	Karnataka	Tamil Nadu	Andhra Pradesh	Gujarat	Punjab
1995-96	0.39	**NA**	**0.55**	**0.34**	**0.44**	**0.76**	**0.49**
1996-97	0.29	**0.40**	**0.51**	**0.36**	**0.71**	**0.72**	**1.03**
1997-98	0.33	**0.41**	**0.53**	**0.33**	**0.52**	**0.61**	**0.79**
1998-99	0.36	**0.51**	**0.71**	**0.43**	**0.71**	**0.60**	**0.59**
1999-00	0.38	**0.04**	**0.76**	**0.35**	**0.80**	**0.63**	**1.33**

Source: Report of the Comptroller and Auditor General of India, Commercial, different issues for different State Governments

The guarantees given by West Bengal government against loans and credits given by banks etc. to the government companies from 1990-91 to 1999-00 are shown in table 49. Over the years, the amount of guarantees given by the West Bengal government does not indicate any definite pattern. The amount of guarantees outstanding have increased significantly during the period from 1990-91 to 1995-96 (i.e., from Rs. 595.77 crore in 1991 to Rs. 958.53 crore in 1995) and then it declined sharply and again registered sharp increase during the later period of the1990s (i.e., Rs. 2397.97 crore in 1999-00). The outstanding guarantee fee charged on total guarantees given has been also showing increasing tendency. The government companies need to pay guarantee fee in consideration of guarantees given by the government. The payment of guarantee fee was in arrears to the extent of Rs. 6.08 crores as on 31st March 1991 in respect of 17 companies against Rs. 10.03 crore as on 31st March 1999.

Table: 49

Total Guarantees Given by Government of West Bengal to Government Companies and Guaranteed Amount Outstanding From 1991 to 2000

As at 31st March of the Year	Number Of companies guarantee given	Total amount guaranteed (Rs. in crore)	Guaranteed amount outstanding as on 31st March (Rs. Crore)	Number Of companies in arrears in payment of guarantee Fees	The total arrears of guarantee fee as on 31st March (Rs. crore)
1991	**29**	**595.77**	109.29	**17**	**6.08**
1992	**31**	**775.81**	618.79	**16**	**8.40**
1993	**35**	**772.13**	266.12	**22**	**2.40**
1994	**34**	**998.39**	902.31	**21**	**15.83**
1995	**23**	**958.53**	689.59	**16**	**5.61**
1996	**9**	**18.27**	707.70	**18**	**9.35**
1997	**10**	**109.69**	811.72	**18**	**25.69**
1998	**7**	**40.33**	32.91	**12**	**5.61**
1999	**9**	**373.15**	1511.20	**25**	**31.81**
2000	**10**	**1292.85**	2397.97	**31**	**10.03**

Source: Report of the Comptroller and Auditor General of India, Commercial, Government of West Bengal, different issues

Budgetary outgo from the State

West Bengal government's budgetary outgo during the years from 1992-93 to 1999-00 in the form of equity capital, loans, subsidy and grant given to government companies is detailed in table 50. In 1992-93 Rs. 46.20 crore was invested in the form of equity capital to government companies which has increased to Rs. 73.66 crore in 1999-00, i.e., increased by 59 per cent. Similarly loans and subsidies given by the State government increased by 1423 per cent (i.e., from Rs. 57.70 crore to 879.15 crore) subsidy has increased by 9079 per cent (i.e., from Rs. 0.64 crore to Rs. 58.75 crore) respectively during the same period. On the other hand grants given to State government companies during the last two years of 1990s has increased from Rs. 0.15 crore in 1998-99 to Rs. 16.99 crore in 1999-00. Thus economically non-viable companies have been supported by the State in the form of equity capital, loans, grants and subsidy which are said to constitute increasingly a major part of the State's budget. Furthermore, the State government usually forgoes some of these liabilities of the government companies by way of loans being written off, interest waived, converting loans into equity capital, waiving penal interest. In this way the State government loses considerable amount of money without receiving anything in return from the loss making government companies. (table 50)

Table: 50
Budgetary Outgo of West Bengal Government in the Form of Equity Capital, Loans, Subsidy and Grants Given to These Companies During 1992-93 to 1998-99

Years	Equity Capital Outgo from Budget (Rs. in crore)	Loans Given out from Budget (Rs. in crore)	Subsidy given by Government (Rs. in crore)	Grants (Rs. in crore)	Total Budgetary Outgo (Rs. in crore)
1992-93	**46.20**	**57.70**	**0.64**	**-**	104.54
1993-94	**100.53**	**75.14**	**17.79**	**-**	193.46
1994-95	**487.65**	**89.75**	**32.15**	**-**	609.55
1995-96	**222.48**	**149.47**	**38.38**	**-**	410.33
1996-97	**30.29**	**84.89**	**56.37**	**-**	171.55
1997-98	**50.39**	**558.10**	**32.35**	**-**	640.84
1998-99	**38.80**	**1030.63**	**48.91**	**0.15**	1118.49
1999-00	**73.66**	**879.15**	**58.75**	**16.99**	1028.25

Source: Report of the Comptroller and Auditor General of India, Commercial, different issues for different State Governments

Finalisation of accounts

Finalisation of accounts is another most important aspect of financial management and discipline. Of 69 government companies only 14 companies and out of 11 statutory corporations only two corporations had finalised their accounts for the year 1999-00 within 30th September 2000. The accounts of the remaining 51 government companies and 7 statutory corporations were in pending for periods ranging from 1 year to 16 years as on 30th September 2000 as indicated in table 51. The accounts of 4 companies and one corporation had not been finalised since inception.

The main reason for pendency of accounts were delay in compiling the accounts by the companies. The earlier delay in finalisation of accounts caused accumulated backlog. The absence of qualified staff and delay in completion of audit by the Statutory Auditors also resulted in arrears in finalisation of accounts in some cases. So far no effective measures had been taken by the State government for timely finalisation of accounts. As these companies did not adhere to the time schedule the investment made in these companies remained outside the purview of audit and their accountability could not be ensured.

Table: 51
Latest Position of Finalisation of Accounts of Government Companies and Statutory Corporations in West Bengal

Serial No.	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Number Of Government Companies whose accounts are in arrears	No. Of Statutory corporations whose accounts are in arrears
1	**1984-85**	**16**	**1**	**-**
2	**1991-92**	**9**	**1**	**-**
3	**1992-93**	**8**	**3**	**-**
4	**1993-94**	**7**	**1**	**1**
5	**1994-95**	**6**	**2**	**-**
6	**1995-96**	**5**	**5**	**-**
7	**1996-97**	**4**	**2**	**1**
8	**1997-98**	**3**	**3**	**1**
9	**1998-99**	**2**	**11**	**4**
10	**1999-00**	**1**	**22**	**-**
Total			51	7

Source: Report of the Comptroller of Auditor General of India for the Year ended 31st March 2000, Commercial, Government of West Bengal, p. 11

The profit and loss situation of these companies

According to the latest finalised accounts (31st March 2000) of 69 Government companies and 11 statutory corporations, 49 companies and 6 corporations had incurred an aggregate loss of Rs. 237.00 crore and Rs. 690.32 crore respectively. The remaining 15 companies and 4 corporations earned an aggregate profit of Rs. 16.09 crore and Rs. 2.12 crore respectively. Moreover, the accounts of 4 companies and one corporation had never been finalised since inception. And one government company prepared its accounts only in the (1983-84) the construction period. (Report of the Comptroller of Auditor General, Commercial, Government of West Bengal, 2000, p. 12)

Capital erosion

According to the latest accounts as on the 31st March 2000, out of the 49 loss making companies, 41 companies in which government had invested Rs. 1247.35 crore, had accumulated losses aggregating Rs. 1863.99 crore. which exceeded their aggregate paid up capital of Rs. 349.07 crore. The net worth of all these companies remained negative. The loans given by the government to the companies are doubtful debts on account of this negative net worth. The loan funds are used to finance losses after paid up capital gets fully eroded. So there is little likelihood of the loans being repaid to the government. The main reasons for such poor performance of these companies as analysed by CAG are obsolete plant and machinery, low capacity utilisation, heavy interest burden, high employees cost, shortage of working capital and market constrains. In spite of the poor performance leading to complete erosion of paid up capital, the State government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, conversion of loan into equity, subsidy etc. The total financial support provided during 1999-00 to these 32 companies amounted to Rs. 231.30 crore (Report of the Comptroller of Auditor General, Commercial, Government of West Bengal, 2000, p. 15) Although the companies were accountable for proper utilisation of public fund they did not introduce an effective cash management system in order to utilise the fund available to them efficiently and economically.

Return on capital Invested

An attempt was made to indicate return on total capital employed in the government companies over the period 1993-94 to 1999-00. Table 52 indicates that such return has registered sharp decline from 2.35 per cent in 1993-94 to 1.20 per cent in 1998-99. And in 1999-00 the return of the total capital employed in government companies was negative. An attempt has also been made to look into the position of the overall investment made by the West Bengal government in non-departmental public enterprises as a whole and their respective return. Investments are made out of the capital outlay by the government to promote developmental, manufacturing, marketing and social activities. The details of investment and the returns realised during the last five years by way of dividend and interest are given in table 52. Thus while the government was raising high cost of borrowing from the market to invest in government companies etc. In contrast, these companies have been giving insignificant returns. (table 53) As compared to other States it would be clear that the return on investment made by the West Bengal government in non-departmental public undertakings is the lowest among some major States during the period between 1995-96 and 1999-00. (table 54)

Table: 52
Capital Employed in Government Companies and Return on Capital Employed Between 1993-94 and 1999-00

Year	Capital Employed (Rs. in Crore)	Return on Capital Employed (Rs. in crore)	Percentage of Return
1993-94	**1412.77**	**33.14**	2.35
1994-95	**1779.77**	**14.32**	0.80
1995-96	**2267.31**	**92.13**	4.06
1996-97	**2373.86**	**83.62**	3.52
1997-98	**3386.56**	**69.26**	2.04
1998-99	**4291.67**	**51.34**	1.20
1999-00	**5440.36**	**-2.53**	-

Source: Report of the Comptroller and Auditor General of India, Commercial, Government of West Bengal, different issues

Table: 53
Investment and Return of Non-Departmental public enterprises of West Bengal Between 1995-96 and 1999-00

Year	Investment at the end of the year	Return	Percentage of Return	Rate of interest on Government Borrowings
	(Rs. in crore)			
1995-96	**2268.23**	**0.40**	0.02	**14**
1996-97	**3260.76**	**0.53**	0.02	**13.85 & 13.75**
1997-98	**3408.14**	**1.85**	0.05	**13.05**
1998-99	**3531.68**	**0.44**	0.01	**12.15 & 12.5**
1999-00	**3654.30**	**1.23**	0.03	**11.85 & 12.25**

Source: Report of the Comptroller and Auditor General of India, Civil, Government of West Bengal, Different Issues

Table: 54

Investment and Return of Different State Governments Between 1995-96 and 1999-00

Year	Maharastra	Karnataka	Andhra Pradesh	Gujarat	Tamil Nadu	Punjab	West Bengal
1995-96	**NA**	**0.28**	**0.12**	**1.01**	**3.46**	**0.03**	0.02
1996-97	**0.49**	**0.38**	**0.24**	**0.66**	**2.08**	**0.04**	0.02
1997-98	**0.47**	**0.34**	**0.16**	**0.40**	**1.40**	**0.09**	0.05
1998-99	**0.11**	**0.25**	**0.27**	**0.61**	**1.56**	**0.05**	0.01
1999-00	**0.06**	**0.34**	**0.08**	**0.71**	**1.54**	**0.40**	0.03

Source: Report of the Comptroller and Auditor General of India, Civil, Different Issues for Different State Governments

Conclusion

In recent years all the States have been facing revenue crisis which resulting from both the impact of New Economic Policy (NEP) and in-built inefficiency of the States' fiscal base of the Indian federation coupled with unequal balance of fiscal power in favour of the Centre and against the States. Consequent upon the NEP, the revenue base of the Centre has been decreasing over time and as a result the statutory revenue devolution from the Centre to the States have also been decreasing.

Contrary to the usual trend the State-West Bengal did manage to secure an increasing level of revenue from the Centre in the form of tax receipts and grants and loans compared to other Indian States during the decade of 90s. But on the other hand in terms of the State's own revenue mobilisation its performance in comparison with other States has remained unsatisfactory particularly in respect of non-tax revenue.

In terms of fiscal indicators West Bengal's performance is the worst of all with high deficit in both fiscal and revenue account and mounting interest liability of the State. Subsequently the State is getting trapped into the vicious circle i.e., more borrowing being required in order to repay the debt raising the further higher level of indebtedness of the State. Evidently, this has been crowding out capital expenditure and hence capital formation and the ability of the States for Plan financing through positive BCR. That apart, low developmental expenditure including low level of expenditure on social services also had adverse impact on over all infrastructural development. In this connection it should be noted that the pre-existing structural constraints of the Indian federation have had retarding effect on the revenue base of the States in general and low and middle income States in particular. But it should not be overlooked that fiscal prudency and efficient management of existing resources of the States also plays an important role in enhancing their revenue mobilising capacity. In this respect the study covering the past two decades reveals that West Bengal compared to other States failed to manage its resources efficiently. Thus consequent fiscal indiscipline coupled with lack of adequate effort made to exploit the full potential of its revenue base i.e., both in terms of own tax and own non-tax revenue aggravated the problem further.

Chapter: 7

Federalism From Below-A Case Study of West Bengal

The problem of federalism in India may be seen from two different angles-federalism from above and below. Federalism from above deals with vertical devolution of resources between the Centre and the States and horizontal transfer of resources among the States through different multiple resource transfer agencies i.e., Finance Commission, Planning Commission and also through Central Ministers for Centrally sponsored schemes. Federal fiscal transfers in India so far failed to attain one of the most important goals-regional balance and equity. Finance Commission and the Planning Commission while devolving funds among the States ignored certain State specific and region specific factors and flatly concentrated on the common factors such as population, poverty and backwardness etc. thereby tending to accentuate regional inequity and imbalance.[141] Of different modes of resource transfers, statutory transfer (transfer made by the Finance Commission) has shown less regressive tendency than Plan transfer and discretionary transfers. Such limited progressivity is, however, remained practically ineffective for statutory transfer forms only a minor part of the total resource transfers from the Centre to the States while the major part of the transfers is of discretionary nature controlled by the Central Ministers and the Planning Commission (Plan transfer has also some discretionary element). It is observed that more the amount of discretionary transfers the more would be the tendency of unequal horizontal distribution.[142] Evidently, these factors tend to accentuate regional disparities and imbalance at the intra-State level as well as at the inter-State level. The ongoing economic reforms since 1991 with de-control and de-regulations of their central focus seems to have further widened the regional disparities in the Indian federation. [143]

It is often argued that turning Panchayat Raj Institutions (PRIs) (local level governments) into an institution of self governance by devolving functions, functionaries and financial power would not only help to reduce inter-regional and intra-regional disparities but also reduce the pressure on the State government's funds for running the PRIs. This notion is particularly

[141] Sarma, J.V.M, 'Federal Fiscal Relations in India Issue of Horizontal Transfers' EPW, July 12, 1997

[142] Different important studies were undertaken concerning this area of which, Rao, H, Centre-State Financial Relations, Allied Publishers PVT, New Delhi, 1981; Bajaj, J.L, Sinha, K.S & Agarwal, O.P, Finance Commission and Backward States, Print House, Lucknow, 1985; Gulati, I & Geroge, K.K, Centre-State Flows and Inter-State Disparities, Criterion Book, New Delhi, 1988; Sen, T.K & Rao, M.G, Fiscal Federalism in India Theory and Practice, NIPFP, Macmillan India Ltd., 1996; Prakash, Om, Centre-State Financial Relations in India, Atlantic Publishers, New Delhi, 1994 are noteworthy.

[143] Ahluwalia, M. S, Economic Performance of States in Post-Reforms Period', EPW, May 6, 2000, pp. 1638-1641, Kurian, N.J, 'Widening Regional Disparities in India Some Indicators', EPW, February 12, 2000

relevant in the backdrop of acute budgetary crisis faced by almost all the States since the mid 1980s which has been continuing till date. The financial crisis of the States gets further deepened by the ever increasing dependency syndrome of the PRIs on the State governments for grants. While it is supported by different studies undertaken from time to time that by and large own resource mobilisation of the PRIs forms negligible part of their total expenditure. (Ninth Planning Commission, 1997; 'Local Government Finances in India', 1998; 'State-Local Fiscal Relations in India', 1998; Eleventh Finance Commission, 2000; Rajaraman, NIPFP, 2001; Mathur, NIPFP, 2000) Knowledgeable commentators on the subject observed "....by failing to mobilise resources the Panchayats have served to increase the cost of governance at and below the district level because now their cost has to be added to the continuing cost of the pre-existing bureaucracy".(Mukarji & Bandyopadhyay Committee,1993, p.10) In addition to that, transfers of some departments to the local governments which are mainly of local nature would reduce the cost of running such departments from the State level. According to an observer, "To encourage local initiatives, the State governments must discourage centralisation of cadres and services and promote the concept that Zila panchayats and municipal boards, etc., should pay the stuff according to their capacity to pay."[144]

During 1990s there was a distinct trend of furthering the status of the PRIs which actually started from the late 1980s with the introduction of 64th Amendment Bill, 1989 with a view to provide self-governance status to the PRIs. However, the Bill could not be passed due to the lack of adequate support in the Parliament. Finally in 1993 PRIs was given constitutional status and amendment to the Constitution (73rd and 74th Amendment, 1993) was made to provide functions, functionaries and financial powers to the PRIs. It was, however, to what extent the empowerment of the PRIs would be ensured left to the discretion of the State governments. In course of time it was noticed that, majority of the States had failed to attain the intended level of decentralisation in terms of parameters set by the Eleventh Finance Commission (2000) and the Ninth Planning Commission (1997) which would be discussed in detail later on.

In contrast, West Bengal has made some progress on some basic parameters of decentralisation. West Bengal belonging to the second generation of PRIs, and late starter in the race of grass root democracy, in many respect is far ahead of them and sets the example of initiating the PRIs movement.[145] The State has successfully conducted six PRIs

[144]Bajaj, J.L, 'Impact of Pay Revision on State Government's Finance', EPW, May 29, 1999, p. 1351

[145]PRIs were revitalised by the second generation State governments like Andhra Pradesh, Karnata and West Bengal following the recommendations of Ashok Mehta committee (1978). (Raghavulu, C.V & Narayana, The Indian Journal of Public Administration, Vol. XXXVII, 1991, pp. 35). These State governments ruled by regional parties followed the recommendations of the Mehata Committee of establishing politicized Panchayat with open participation of political parties in PRIs election. Whereas the first generation of Panchayat initiated by the Congress State governments following the recommendations of the Balwantri Mehata committee (1957), was basically party-less Panchayat. The operative part of the Committee's report was to set up PRIs. When on October 2, 1959 Jawharlal

elections (1978, 1983, 1988, 1993, 1998, 2003) at regular intervals of five years which no other State in India can claim to have done. But with the furtherance of the concept of decentralisation of power and providing Constitutional status to the PRIs to act as a third tier of government in the Indian federation in 1990s, West Bengal seems to have failed in keeping pace with the changing environment. Having ensured basic political and administrative decentralisation to a certain limit, it appears to have stagnated at the previous level.[146]

This discussion of devolving financial and functional power to the PRIs seems to be more relevant in case of West Bengal on account of mainly two reasons. Firstly, intra-regional disparities in West Bengal seems to be more acute than in any other States. Secondly, during 1990s the State has been facing severe budgetary crisis compared to other States. Intra-regional inequity, however, is a deeply entrenched phenomenon in West Bengal since the pre-Independence days which arose from lopsided industrialisation development in the State and stagnant agriculture on account of Permanent Settlement. This acute intra-State imbalance is one of the structural legacies of West Bengal's economy which continues till date. A comparative study of the inter-district inequity covering the two time periods 1980-81 and 1990-91 in West Bengal with those in other States reveals that the extent of relative deprivation at the district level is much more acute in West Bengal as compared to all India level. Therefore, inter-State variation in India during these two time periods (1981 and 1991) was much lower than intra-regional deprivation in West Bengal implying that the pattern of relative deprivation in West Bengal has not changed over time. The relative deprivation index in West Bengal indicates that the more urbanised regions have higher levels of human development depriving the less urbanised ones. The Human Development Index (HDI) used in this study consisted of literacy rate above seven years of age, infant survival rate, and per capita real domestic product. (Bhattacharya, 1998, p. 3031) A more recent study in this area also reinforced such acute intra-State disparity in development of West Bengal. (Chatterjee & Ghosh, 2003)

During the last two decades, as observed by different Studies (Westergaard,1986, p. 84; Swaminathan,1990, p.18; Kholi,1983, p. 802; Dasgupta,1995, p.2699) West Bengal has experienced successful implementation of different rural development programmes and participatory decentralised planning model since 1985 through active participation of the PRIs as a tool of a economic development at the local level. Moreover, institutional change in rural economy introduced through land reform,

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Nehru inaugurated the Panchayati Raj at Nagpur, Rajasthan he characterised it as "the most revolutionary and historical step in the context of new India". By the mid-1960s Panchayats had come into beingin allmost all parts of the country. (Mathew, G, "The Federal Principle of Local Government", in Mukerji, N & Arora, B (ed.)Federalism in India Origins and Development, Vikas Publishing House, New Delhi, 1992, p. 242)

[146] A recent inter-State study undertaken by Jain (1999) covering all states put West Bengal behind different States in terms of several indicators of decentralisation. That would be discussed in detail in the later part of the study. Mentioned in Ghatak & Ghatak, EPW, January 5, 2002, p. 53

registration of the share croppers, successful running of five consecutive local governments. All these contributed to increasing agricultural growth and reduction of general poverty level in rural West Bengal. (Lieten, 1996, p.48; Rawal & Swaminathan,1998; Sanyal, Biswas & Bardhan,1998) But it is quite disheartening to note that despite the active participation of the PRIs in development programmes and decentralised planning in West Bengal the relative deprivation at the inter-district level has not changed over time. And the wide variation in the HDI between the urban and non-urban region seems to have deepened both over time and compared to the all India situation.

West Bengal has been facing acute budgetary crisis and it is said to be one of the most indebted States of the Indian union with the exception of Uttar Pradesh in 1999-00. The rate of growth of public debt of West Bengal during 1990-99 was 19 per cent which was highest for any State with the exception of Himachal Pradesh (19.9 per cent)[147]. Furthermore, the revenue deficits of West Bengal in terms of Gross State Domestic Product (GSDP) in 1999-00 was 6.7 per cent, the corresponding figure for all India was only 2.9 per cent.[148]

One of the main reasons for such acute crisis was the proliferation of State apparatus and consequent increase in revenue expenditure even as the PRIs have been working well in this State for last three decades (from 1978 till date). According to an estimation, considering the period between 1981-82 and 1987-88 the compound growth rate of State government employees of West Bengal (4.87) was much higher than all India (3.62) average and was highest among all the States except Tamil Nadu (5.20).[149] Further, from 1980 to 1999 (March) the number of employees of the State government increased by 70.800 those of quasi government by 20.400 and local bodies by 35.800. Therefore, "It seems that the government machinery far from diminishing has expanded during the very period that the Panchayats have been in existence." (Mukarji and Bandyopadhyay Committee, 1993, p.21) Successful running of the PRIs in West Bengal has not resulted in any reduction in the machinery of the State government.

Some scholars (Kanna, 1993, p. 2645; Pal,1995, p. 34) urgently feel that it is rather expedient to transfer education, health and other related departments of local nature to the PRIs which would in the process reduce the volume of the State bureaucracy to an equal proportion and consequently minimise the cost of running these departments at the State level. At the same time it has to be ensured that local functions should be funded from local resource mobilisation thus certainly not through the transfers from the States. Local bodies would have a positive incentive to levy local taxes only if a function or set of functions are funded exclusively

[147] Sankar, K, 'West Bengal Parlous State of Government Finances', EPW, December 30, 2000, p. 4607

[148] *Ananda Bazar Patrika,* (Bengali Daily), Calcutta, 9th July 2002

[149] For details see, Rao, M.G, Proposals for State Level Budgetary Reforms, EPW, February 1, 1992, p. 214

from local revenues. Even where the local fiscal domain is inadequate for core local functions, exclusive assignment of a subset of functions is possible even in the poorest regions. (Rajaraman, 2001, pp.31-32) Furthermore, if local governments are entrusted with running departments of local nature, that would not only ensure efficient management of these departments but also local government would tend to seek low cost option that would in turn minimise the financial pressure on the State governments. (Rajaraman, 2001, p.32) Bardhan (1996) concluded from some case studies that effective functional and financial decentralisation has seemed to have ensured accountability which in turn has improved the quality of public services and cost efficient catering of these services. (Bardhan, 1996, pp. 140-142) Lieten (1996) also put forward similar argument regarding the necessity of functional decentralisation to the PRIs of West Bengal.[150]

Therefore, it is usually expected that successful functional and financial decentralisation of the PRIs in West Bengal would lead to better deliverance of local public services. But as Drez & Sen observed the Left Front government despite its skills of popular mobilisation has not been able "to achieve a real transformation in the fields of education and health"[151] which have a significant bearing on the living condition of the rural poor. Similar concern about the education system of West Bengal particularly the primary education of West Bengal was expressed by Ashok Mitra Commission on Education, 1992, and several other studies undertaken on this area[152]. Recently the Pratichi Education Report (2002) based on three

[150] "It has long been agreed that the State departments (PWD, electricity, health, agricultural extension, education etc.) are inefficient, inert, over-staffed and corruption-prone institutions. On the other hand, the local bodies would be interested in tackling the issues directly (both because they are directly affected and the electorate expects them to act). A massive transfer of staff from the state to local structure is urgently called for. Social control over the works implemented will improve quality and speed, and reduce corruption". (Lieten, G.K, Development, Devolution and Democracy village Discourse in West Bengal, 1996, p. 230

[151] Quoted in Basu, J (ed.) People's Power in Practice 20 Years of Left Front in West Bengal, Calcutta National Book Agency, Calcutta, 1997, p. 80

[152] The proportion of the State budget allocated for education in 1990-91 was 26.89 per cent which was much higher than the all India average (19.94) during the same period. But as much as 95 per cent of the total outlay goes to pay the emoluments in primary and secondary education as against 80 per cent in higher education in West Bengal. It was concluded that West Bengal's education system is one of the most wasteful among the leading States of India. Moreover, in terms of literacy rates the State remained significantly lower than Gujrat, Maharastra, Tamil Nadu and Kerala. In terms of school enrolment it is worse off than Gujrat, Kerala, Punjab, and Tamil Nadu. Out of total primary schools in the State in 1986, 5.02 per cent primary schools classes used to be held in open space and 44.01 per cent did not have adequate building facility i.e., the building of these schools varied from partly pucca building, Kachcha building, thatched huts, tents to open space. And 29 percent of the total primary schools of the State had only one class room. (Ashok Mitra Commission on Education, 1992, pp. 26; Singh, A, 'Combining Moral Commitment with Pragmatism Ashok Mitra Commission on Education', EPW, July 17-24, 1993, p. 1504; Majumdar, T, 'An Education Commission Reports', EPW, May 8, 1993; pp.919-920. After 10 years the situation did not change much. In 1996 almost similar observation was also made in the report prepared by the Directorate of School Education. (Ananda Bazar Patrika, Bengali Daily, Calcutta, 19th August, 1996)

districts of West Bengal expressed the concern over the precarious condition of primary education of West Bengal.[153] The study undertaken by Bajpai, & Sachs (1999) covering the period 1990s regarding overall State-wise performance of social indicators such as infant mortality rate, drop out rates at the primary stage of education, teacher/pupil ratio, percentage of children attending school observed that West Bengal by and large has been lagging behind Maharastra, Tamil Nadu, Kerala, Punjab, Gujrat and Haryana with few exceptions.[154]

In this connection an argument made by the West Bengal government is worth noting. As the government feels that "Panchayats can not be blamed for the poor achievements on the health and education front. In fact the functional domain of Panchayats does not extend to these areas which remain under the charge of the State Government which also suffers from the lack of necessary infrastructural facilities." (Basu,1997, p.80) In view of the above, functional and financial decentralisation of West Bengal's PRIs and the debates regarding the performance of West Bengal PRIs will be taken up in the subsequent paragraphs of this study in order to understand the conceptual limitation of the West Bengal government as regards enhancing the status of PRIs.

Centre-led, Centrally controlled decentralisation during 1990's

At the time of Independence India adopted the Centralised Planning model (which ignores the local or State level priorities in the field of planning) without paying much heed to the Gandhian thought of self governance or *Purna Swaraj*.[155] As an after thought Article 40 was included in the

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[153] " West Bengal still stands at a dismal 18th position in literacy rates among 35 Indian States and the Union territories. The rate of literacy among the scheduled castes remains as low as 42.21 per cent. Almost 15 per cent of the population in the age group of 6-11 years were out of school in 1997-98. There is on an average 2.98 teachers per school, a suffocating student-teacher ratio of 54:1 far higher than the declared ratio (40:1) of the government.... The focus of the investigation was on three West Bengal districts-Birbhum, Medinipur, and Puruliya". ('Schools out of Shape', EPW, October 26, 2002, p. 4345)

[154] For details see Bajpai, N & Sachs, J.D, The Progress of Policy Reform and Variation in Performance at the Sub-National Level in India, Development Discussion Paper No. 730, Harvard Institute of International Development, Harvard University, November 1999, pp. 22-23

[155] Gandiji unequivocally stood for power of the people. In his concept of *Swaraj* (*Harijan* July 28, 1946) "Independence must begin at the bottom. Thus every village will be republic or Panchayat having full powers ...every village has to be self sustained and capable of managing its affairs". (Suri, P.C, Mainstream, September 10, 1988, p. 16) Therefore, Gandhian village is to be self sufficient, a self-ruled community of the people in which

Constitution[156] which spells out that the State governments should take necessary initiative to ensure self government of the PRIs. But such notion was neglected after Independence and there was no legislation to implement it until October 2, 1959, Gandhiji's birthday when for the first time Panchayat Act was passed. And by the mid 1960's almost all States passed their respective Panchayat Act.

After Independence the necessity of activating the PRIs came to the fore in connection with the Community Development Project and National Extension Services introduced in 1952 (Mathew,1992, pp. 241-242). Initially

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economic and political power is decentralised and each village is self reliant economically. For Gandhi, village remained the central and focal point. Contrary to that the Nehruvian model of development pursued after Independence promoted centralisation in which village remained at the periphery. Gandhi felt that heavy capital-based modern industries would siphon off funds from rural area and subsequently destroy indigenous industries of rural economy leading to unemployment and in the course of time would widen the disparity between urban and rural area. (Khandewala, S.V, Mainstream,1999, pp. 274-275) For details also see Rao, Dr. N.R, Panchayati Raj A study of Rural Local Government in India, Uppal Publishing House, New Delhi, 1992, pp. 33-36; Mathew, G, "The Federal Principle in Local Government" in Mukarji, N & Arora, B (ed.) Federalism in India Origins and Development, Vikas Publishing House, New Delhi, 1992, pp. 239-240)

[156]Article 40 of the Directive Principles of State Policy says: The State shall take steps to organise village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government. (Roy, B, Mainstream, January 29, 1994, p. 31)

It is worth reminding that Nehru and other Congress leaders were opposed to Panchayats. It is in this context that Ambedkar, in his famous speech of November 4, 1948 described the village "as a sink of localism, a den of ignorance, narrow mindedness and communalism" and proudly declared that the constitution had "discarded the village and adopted the individual as its unit." (Dhavan, R, Mainstream, July 29, 1989 pp.6) When M. Gandhi discovered that there was no mention of Panchayati Raj in the earlier draft of the Constitution, he insisted on its inclusion in the revised draft, because PRIs was an important component of his vision of future India. He felt that people's voice should be reflected in our independence through Panchayats and therefore the greater is the power of PRIs the better it is for the people. (Hirway, I, EPW, July, 22, 1989, p.1663) On November 22, 1948, the discussion was revived when the desirability of village Panchayats was introduced and consequently Article 40 of the constitution was included at Gandhiji's insistence in the chapter on Directive principle's of State policy. (Hirway, I, EPW, July, 22, 1989, p. 1663) the implementation of such projects were entrusted to the local level bureaucracy. In the course of time it was found that the implementation of such projects started faltering and successful implementation of these projects would not be possible without active participation of the PRIs. Only then for the first time after Independence, urgent need for involving the local people through the organisation like PRIs was felt. Balwantari Mehta Committee (1957) was set up and was entrusted with the task of reviewing the "economy and efficiency" of the Community Development Project. The Committee concluded that without effective involvement of local level governments, any Community Development Project is bound to meet failure. The operational part of the Committee's suggestion was the setting up of PRIs bodies and in conformity to this all States subsequently passed respective Panchayat Acts. It was, however, left to each State to enact laws necessary to construct their own local level government. Thus from the very beginning PRIs were mainly associated with the successful implementation of Community Development Project and were perceived as an implementing agency for these projects handed down from above. Which is, however, a limited view in contrast with what was envisaged by Gandhi and consequently incorporated in Article 40 of the Directive principles of the States.

The PRIs registered declining trend since the late1960's. However, the Mehta Committee (1978) identified three interesting phases of growth of the PRIs namely ascendancy (1959-64), stagnation (1965-69), and decline (1966-77). The ill-functioning of the PRIs had compelled the Committee to conclude that the grass root institutions are the institutions without a 'root' and a caricature of local government. (Singh & Mishra, 1991, p. 688) Several reasons contributed to this decline as described by the Committee. Of which the growing indifference of the State governments to devolve power to the PRIs was noted to be the most important one. Hirway (1989) also made similar observation as she concluded that both the Centre and the States governments are responsible for the decline of the first phase of PRIs started from 1959.[157]

The PRIs were again revived in the mid 1980's. Particularly it started with the setting up of the Mehta Committee (1978) by the then Janata Government. The Committee expanded the role of the PRIs from mere implementing agency of the rural development programme handed down from above to an instrument of decentralised planning. Since the mid 1980s there has been a growing interest within the Union government in reviving the role of the PRIs. Seventh Planning Commission (1985) and the Eighth Planning Commission (1992) also suggested in favour of revitalising the PRIs. One important step taken by the Union government in 1984 was that the then Prime Minister himself wrote to the Chief Ministers of different State governments to take appropriate action without further delay for

[157] For details see Hirway (1989). She mentioned several reasons for the decline of PRIs. Among them structural inadequacies, socio-economic and political structure, the role of bureaucracy, constitutional constraints and unwillingness of governments to share power with lower bodies are most noteworthy. (Hirway, I, Panchayati Raj at Crossroads', EPW, July 22, 1989, pp.1664-1665)

holding of overdue election to the PRIs as well as for revitalising their functioning. (Reddy,1990, p. 24) The then Central government also introduced the 64th Amendment bill, 1989 with a view to enhance the status of the PRIs.[158] Later on two Committees namely G.V.K Rao Committee (1985) and L.M. Singhvi Committee (1986) were set up by the Central government and were entrusted with re-evaluating the role of the PRIs. The whole decade of 1980's saw resurgence of rural local bodies in India which have culminated in the introduction of the 64th Amendment Bill, 1989. But it was not until the 73rd and 74th amendment to the Constitution in 1993, that the PRI's were given a constitutional status and formal acceptance of the third tier government in the Indian federation was introduced.

Against the backdrop of such evolution of the PRIs, it can be said that the growing indifference of the State governments and also of the Union government played a big role in its decline. The States have been showing reluctance in devolving power to the PRIs from the very beginning and it continues till date. From the very start the States were entrusted with devolving power to the local bodies. In 1959 with the inauguration of the PRIs in India, the National Development Council affirmed the basic principles of democratic decentralisation and left it to the States to work out the suitable structures for each State. (Mathew, 1992, p.242). Furthermore, in the Constitution of India the subject of local government was included in the State list. It is the State governments which bear the primary responsibility to implement further decentralisation of PRIs.(Khanna, 1994, p.18)

It appears that the States often have violated the constitutional verdict of accepting PRIs as third tier of government even after the formal introduction of 73rd constitutional amendment. The State governments by and large are reluctant to decentralise power and tend to suppress even the existing Panchayat bodies by creating parallel structures. (Mathew,1999, p. 12; Aiyar, 2002, p. 3294) The PRIs, with few exceptions remained by and large agencies of the State governments instead of being self governments. (Pal,

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[158] One of the several reasons for which the 64th Constitution Amendment bill came up is "the failure to hold regular and periodic election, prolonged suppressions, inadequate representation to the weaker sections like SC and STs and women, lack of financial resources and inadequate devolution of powers and responsibilities on them" (The Constitution 64th Amendment Bill, 1989, quoted in Sarkar, N.K, Mainstream, December 9, 1989, p. 15) Similar observations also made by Hirway (1989). The 64th amendment bill was introduced due to the fact that firstly, it was felt that State governments were not very enthusiastic in implementing PR in their respective States as they were not prepared to share power with lower level of bodies. In fact it is observed that some State governments took the power back from PR bodies gradually. Therefore it was needed to amend the Constitution to ensure power to PR bodies. Secondly, Local self-government and Panchayati Raj bodies are in the state list in the present Constitution, with the result that the Centre can not pass any legislation in these areas unless the Constitution is amended for the purpose. (Hirway, I, EPW, July 22, 1989, p. 1666)

2001, p. 1780) Functional decentralisation to PRIs was far from being implemented as was listed in the 11th and 12th schedule of the Constitution. (Datta, 1996, p. 149;) Some States even deny to implement the basic parameters of decentralisation such as holding elections and so on. Thus PRIs elections were not held for many years in some States. And some State governments begun to postpone elections and even dissolved or suspended a large number of these institutions. There seem to be no political pressure or legal requirements to make the State governments to take Panchayat seriously.[159]

It seems to us that such reluctance by the States may be analysed by the structural lacuna of the Indian federal structure. There have been parallel trends of centralisation and decentralisation in India particularly after the late 1980s. It is, however, widely discussed that Indian federal finance has undergone centralisation in fiscal power since its very onset. The quality of resource transfers from the Centre to the States have deteriorated over time. Statutory transfer has been overshadowed by the discretionary transfers and the magnitude of statutory transfer has been declining over time. Evidently, the functions of the Finance Commission are being undermined by the directives given by the Centre in the form of additional “Terms of Reference”. In the course of time fiscal powers of the States are being encroached upon through the enactment of laws passed by the Centre. Consequently fiscal power enjoyed by the States at present is much less than what was envisaged in the Constitution.

Contrary to the ever-increasing encroachment by the Centre in the State’s domain, the Centre has actively pursued decentralisation between the States and the local governments since the mid 1980s. From that time there has been a parallel process of pursuing decentralisation between the States and the local governments and centralisation between the Centre and the States in the Indian federal structure. Furthermore, not only centralising trends have been increasingly evident in the Centre-State relations there have been also some centralising features in the very attempt of decentralising power between the States and the local governments. In 1989 the decentralisation attempt taken by Rajiv Gandhi the then Prime Minister of India, carried lots of features of centralisation in the name of

[159] From the very first day of Panchayati Raj in the country several States went on postponing Panchayat elections. These include, Tamil Nadu, Kerala, Karnataka, Jammu and Kashmir, Bihar and Orissa. When the five year term of Panchayat was over, postponement started in Assam, Karnataka, and in Madhya Pradesh. It is clear that constitutional mandate has been violated by the States. The State Election Commissions are not acting as independent constitutional bodies and many of them actualy succumb to the pressures of the State governments. Some of them have withheld Panchayat elections even after the election process had started. There are however, some exceptions. Orissa State Election Commission in one such which urged for Supreme Court’s intervention to conduct the Panchayat election in 1997. Anhra Pradesh State Election Commission too went to the Andhra Pradesh High Court against the State government’s ordinance to postpone the elections to the middle and upper tiers of the Panchayats. (Mathew, G, EPW, January 20, 2001, pp. 183-184)

decentralisation.[160]These two opposite trends, which seem to have been working at the cross purpose, became more intensified since the economic liberalisation,1991 which introduced a notion of 'development-through-decentralisation.'

The decade of 1990s, however, witnessed further assault on the State autonomy in the Indian federation. So far Centre-State relations was concerned, on the one hand the States were left at the mercy of Central institutions and their statutory right of receiving grants (Plan and non-Plan both) were linked with the progress made by the States in pursuing fiscal reform programmes dictated by the Centre and Central institutions.[161] On the other hand the Centre took vigorous attempts to carry forward decentralisation of power in the domain of State-local relations. Attempts were taken by the last two Finance Commissions i.e., Tenth and Eleventh to link grants with the progress made by the State governments in decentralising power to the PRIs as a measure to make the delinquent States committed to the devolution of power to the PRIs. The Centre took bureaucratic measures, centralised steps and bills such as 87th Amendment bill 1999 to ensure efficiency in the process of decentralisation at the State-local area.[162] Furthermore, the Centre initiated the process of decentralisation by providing the cost of establishing PRI's on a uniform basis. The parameters of decentralisation are fixed by the Centre and which

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160 " It seem that the proposed bill tends to increase the power of the centre and reduces the same of state governments. First of all the bill has taken PR out of the state list and put it in the concurrent list so as to allow the centre to pass legislation in this area. Secondly, the provision of holding PR election under the supervision of the chief election commissioner and not under state government once again gives more powers to the centre. Thirdly, the provision of providing finances to panchayats through the finance commission and not through State governments also reduces the power of states (giving funds for Jawhar Rojgar Yojana directly to panchayats is indicative of the same trend). Fourthly, the power of dismissing panchayats now vests with governors which also increases central control over panchayat bodies. And lastly, the provisions like 30 per cent representation to women, proportionate representation to SC/ST etc, which are decided at the centre without consulting state governments is another encroachment on powers of state governments". (Hirway, I, EPW, July 22, 1989, p. 1666)

161 See for details Ghosh, A, "Bureaucratic Centralisation The Eleventh Finance Commission adds a nail to the coffin of federal finance", Frontline, February 16, 2001; Rao, M.G, "Linking Central Grants to Revenue Deficit Reduction by States", EPW, June 3, 2000

162 The 87th amendment bill proposes in effect the abolition of elected Panchayats at the intermediate level and in some cases of elected Zila Parishadas. The bill if enacted will contradict the objects and reasons of the 73rd Amendment to the Constitution 1993 that has meant to strengthen the PRIs. (Pal, M, EPW, May 26, 2001, p. 1780) The reason of the introduction of the 87th bill is that in the working of Panchayats it was found that elected members of the territorial constituencies of the Panchayats at the intermediate level and the district level have no substantive functions to perform. Representatives of the village and intermediate level Panchayats are denied any role in the elections of chairpersons of the higher level. The question arose in this respect that Article 243-G of the Constitution makes it clear that that it is the legislature of the State which has to devolve power to the PRIs. Now if intermediate levels of the PRIs i.e., Panchayat Samiti and Zila Parishad have no sufficient functions to perform the fault lies with the State government and not with the very existence of PRIs. (Bandyopadhyay, D, EPW, April 29, 2000, p. 1503)

are to be followed by the States in order to receive funds required to continue the very process of decentralisation. The detailed guideline of parameters of decentralisation were laid down by the Centre over which States in any case had no say. This model of decentralisation is thus, Centre-led, centrally-controlled, centralised model of decentralisation. Therefore, the whole endeavour of empowering the PRIs during 1990s appears to be tremendous centralised attempt at decentralising power.

Against the backdrop of such omnipotent centralisation in the Indian federal structure the States feel rather insecure in devolving power to local governments which in practice affects the decentralisation from the States to local bodies. Mukarji (1989) aptly feels that, in the descending cascade of decentralisation from the Union to the States and from the States to sub-State level, if the cascade stops at the first stage the State would be choked with powers and consequently would be reluctant to decentralise power to local bodies. On the other hand if the cascade starts from the second stage the States would be unable to devolve function to the PRIs for fear that it may reduce its importance too much. (Mukarji,1989, p.468) So the problem of federalism from below should be seen from this perspective without de-linking it from the overall scenario of Centre-State relations in the Indian federation.

With a view of aforementioned centralised attempt of empowering the PRIs, a few necessary steps were taken during 1990s to amend the Constitution for providing more power to the Union Finance Commission in order to enable this body to handle the State-local relation. However, this is for the first time in the Indian federation that the Union Finance Commission was entrusted with supervising the matter of decentralisation between the States and the local government instead of entrusting this matter on the State Finance Commissions of respective State governments. Moreover, the Central institutions such as the Finance Commission and the Planning Commission have set some parameters in this regard and the progress made by the States in empowering local bodies tend to be evaluated in terms of these parameters.

Central Institutions and Appraisals of PRIs during 1990s

The Tenth Finance Commission (1992) of India were entrusted to review the functions and position of the PRIs through amending the Constitution. The Provision of Article 280 of the Constitution, in which Finance Commissions have been constituted prescribe (a) mandatory terms of reference as laid down in clause (3) of Article 280. According to the clause (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be divided between them and (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

Until recently the Union Finance Commissions were only entrusted to recommend revenue share between the States and the Centre. Subsequent to the setting up of the Tenth Finance Commission (1992) The Article 280

(3) of the Constitution was amended in order to assign yet another mandatory duty to the Union Finance Commission. Following the 73rd and 74th amendment to the Constitution, two new sub-clauses (bb) and (c) have been introduced in clause 3 of Article 280. These sub-clauses make it obligatory for the Union Finance Commission to recommend measures necessary to augment the Consolidated Fund of a State in order to supplement the resources of the Panchayats/Municipalities in the State on the basis of the recommendations made by the Finance Commissions of the States. (Report of the Tenth Finance Commission, 1992)

The Tenth Finance Commission (TFC) for want of State Finance Commission (SFC) reports made an ad hoc provision of Rs. 4381 crore to the PRIs for the period 1996-2000. All the States were given grants amounting to Rs. 1095 crore during 1996-97 which in turn decided to be given to the three tiers of the Panchayat bodies. However, release of funds during 1997-98 and the subsequent years required the State governments to make progress in the desired direction of decentralisation spelt out in the 73rd constitutional amendment. Besides, holding of Panchayat elections regularly became mandatory too for the release of the grants provided by the TFC. (Department of Rural Development, Government of India, Panchayati Raj, Chapter 5, p. 59)

The basic constraint of the TFC as observed by the EFC was that the recommendation of the TFC for releasing fund to local bodies had to be done on the basis of State Finance Commission (SFC) reports of the respective State governments. The recommendation, however, could not be followed the fullest measure for several reasons i.e., under the Constitutional provisions there was no synchronisation of the periods covered by the reports of the SFCs of different States with the Union Finance Commission. The solution only lies in amending the concerned Article of the Constitution. Consequently it was felt necessary to delete the words “on the basis of recommendation made by the Finance Commission of the State” (appearing in the sub-clauses (bb) and (c) of the Article 280 (3) of the Constitution) in order to provide freedom to the Union Finance Commission to recommend financial devolution to those States where either SFCs failed to submit their reports or were not al all constituted by the respective State governments. Moreover, “many SFC reports have not addressed the specific terms listed in Articles 243 I and 243 Y nor have they provided clear idea of powers, authority and responsibilities actually entrusted to the local bodies” (Report of the Eleventh Finance Commission, June 2000, p. 74) thus made it difficult for the EFC to count on the recommendation of the SFCs for devolution of funds.

However, the EFC was given one very important responsibility of recommending measures to make Panchayat functionally, financially and administratively viable. The major recommendations of the Commission pertaining to the Panchayats can be related to: measures regarding augmentation of consolidated funds of the States in order to supplement the resources of PRIs, reforms in local taxes and rates in order to improve the revenue mobilisation of local bodies, accounts and audit of PRIs to be entrusted with C& AG and necessary legislative and administrative steps were suggested by the EFC which would enable the PRIs to function as a self government.

The EFC also provided a total yearly grant of Rs.1,600 crores for PRIs, starting from the financial year 2000-01. The criteria chosen for devolving the grants are as follows: rural/urban population of the State (40 per cent) index of decentralisation (20 per cent)[163], distance from the highest per capita income (20 per cent), revenue efforts of the local bodies (10 per cent) and geographical area (10 per cent). (Report of the Eleventh Finance Commission, 2000, pp. 75-81).This is pertinent to note that the index of decentralisation (20) and that of the revenue effort of local bodies (10) together constitute 30 percent weight for devolving funds to the local bodies. Therefore it is clear that one third of total grants to be devolved to local bodies through the State governments is contingent on the progress made by the States on decentralisation of power to the PRIs.

It is observed that the centralised attempt of providing incentive funds in order to accelerate the process of empowering the PRIs failed to have much impact on the process of decentralisation between the States and the local governments, for flow of funds from other sources greatly overshadowed the incentive funds in volume and quantity. The total rural annual developmental expenditure through Central Ministries for the Financial year 2001-02 amounted to Rs. 16389 crore i.e., more than ten times the EFC's annual provision of Rs.1600 crore. If we add other loan facilities such as under the Rural Infrastructure Development Fund (RIDF) provided by the government of India, the figure gets much higher.(Rajaraman, 2001, pp. 20-21) The study undertaken by Rajaraman (2001) further observes that the united grants by the central rural development actually slackens the revenue effort of the local bodies. Thus the end result of such collateral flow of funds, in reality damages the fiscal capacity of the PRIs. (Rajaraman, 2001, p.30) That apart, massive annual developmental expenditure flows through Central Ministers targeted at rural areas dwarfs any attempt of providing an incentive funds by the TFC and the EFC for empowering PRIs. Such concern was also expressed both by the TFC and EFC in their respective reports. Interestingly enough, it appears that not only that the attempt of the Union Finance Commission for elevating PRIs to self governance by providing incentive funds has become ineffective but also different Central institutions seem to work at cross

[163] Index of Decentralisation set by the EFC (200) includes, Enactment of State Panchayat Legislation in conformity with the 73rd Constitutional amendment act; Intervention/restriction in the functioning of the Panchayat; Assignment of functions to the Panchayat in the State Panchayat Legislation vis-a-vis the Eleventh Schedule; Transfer of functions to the Panchayats by way of rules/notifications/orders of State Governments; Assignments of Taxation powers to the village Panchayats as per State Panchayat Acts; Levy of taxes by the village Panchayats; Constitution of State Finance Commission and submission of Action Taken Reports; Action taken on the major recommendation of the SFC; Elections to the Panchayats; Constitution of the District Planning Committee (DPC)

purposes i.e., delaying the process of decentralisation rather than accelerating it.

As it was already discussed the endeavour of empowering PRIs in 1990s seems to be Centre-led, Centrally controlled decentralisation. Centre has provided uniform parameters of decentralisation within which States can meaningfully exercise their discretion. (Rajaraman, 2001, p.2) But such Centre-led decentralisation attempt was not able to take away the discretionary attitude of the States completely that can be evident from the evaluation made by the Ninth Planning Commission. Ninth Planning Commission (1997) made an attempt to apprise the progress made by the States in decentralisation of power in line with 73rd Amendment to the Constitution. In doing so, the Planning Commission set some parameters. These parameters include following features: conducting of Panchayat election, devolution of financial powers, devolution of functions and functionaries, constitution of District Planning Committee (DPC), Status of Gram Sabha (Village Meeting), implementation of the Act 40 of 1996, checks and balances over PRIs and accountability. However, the Ninth Planning Commission feels that the progress made by most of the States to decentralise power in terms of the parameters mentioned above is completely unsatisfactory. Thus it seems that even after the formal introduction of the 73rd Amendment and renewed activism of the Centre and the Central institutions, most States in the Indian federation failed to devolve minimum decentralisation to PRIs. It remains to be seen to what extent such decentralisation has taken place in West Bengal against the back drop of such broad parameters.

West Bengal A Case Study

In pursuance of the study of federalism from below with reference to West Bengal, it is, however, necessary to deal with two different debates regarding self-governance status of PRIs in West Bengal. Self governance in respect of Gandhi's *Purna Swaraj* and self-governance in terms of 'feasibility frontier'. The advocates of the 'feasibility frontier' while evaluating the success of West Bengal's PRIs are of the opinion that within the given structure of decentralisation pyramid of India due attention has not been paid to the decentralisation of power between the Centre and the States and as a result complete decentralisation of power from the State to local governments remains a far cry. Therefore, as they feel that the PRIs have been functioning quite well in West Bengal even under the given structural constraint of the Indian federation. On the other hand advocates of self governance in terms of *Purna Swaraj* feel that no substantial or limited progress (as claimed by the advocates of 'feasibility frontier') could ever be made unless the true notion of self governance is actively pursued. The term self governance, as it was perceived by Gandhi could only be achieved by addressing three dimensions of decentralisation-political, administrative and financial. Some advocates of self governance influenced by the Gandhi's *Purna Swaraj* focused on political decentralisation and some others focused on the other two aspects of decentralisation namely functional and financial. However, advocates focusing on political decentralisation believe in true enfranchisement of rural poor. Such enfranchisement of rural poor, is according to them, not only ensured by holding regular election of politicised Panchayat but by empowerment of rural masses in real sense. Yet another group tends to focus on the financial and administrative decentralisation. They feel that self governance status of PRIs would not be achieved without successful devolution of function, functionaries and financial power to them.

Left Front government and status of local government

After having been voted to power the Left Front government of West Bengal in its election manifesto (1977) had promised to hold election to the Panchayat institutions and wanted to further the process of decentralisation of power. The first West Bengal Panchayat Act during the post-Independence period was passed as far back as in 1957. The implementation of this Act was, however, very slow. By 1963 just 50 per cent of the villages and 60 per cent of the rural population were covered by the Panchayat system.(Shiviah, Srivastava & Jena, 1980, p. 124) In 1973 West Bengal Panchayat Act was enacted and continued until it was replaced by West Bengal Panchayat Act 1994.The Panchayat Act (1973) provided for direct popular election of all three tiers of PRIs. But it was not until 1978 that for the first time in West Bengal mass participation of rural people in the election of the three tiers of the PRIs took place. It was the first election to the Zila Parishad in 15 years and to the Gram Panchayats in 20 years. (Westergarrd, 1986, p. 15)

Having been voted to power one of the important objectives of the Left Front government was pursuing decentralisation as a means of giving power to the local governments by undermining the pre-existing bureaucracy. An attempt was made to transfer all developmental activities of the government to the Panchayats. The electoral slogan of the Left Front government in 1978 elections was “destroy the centres of vested interests”.(Datta,1998, p. 126) Consequently, decentralisation of power in West Bengal aimed at involving the village people not only in the process of implementation of development programmes but also in the process of preparation and monitoring of developmental plans by building up decentralised structures at the grass root level. (Basu, 1997, p. 68)

Contrary to West Bengal, the role of bureaucracy at local level is predominating in most of the States of India. The District Rural Development Agency (DRDA) through which implementation of various anti-poverty programmes are carried out is still headed by the district magistrate despite a decision taken by the Central government that it will be chaired by the Zilla Parishad’s elected chief. Thus in all other States except Karnataka and West Bengal, DRDA is dominated by the officialdom. (Datta, 1998, p. 122) It is, however, claimed that the Left Front government earlier had established the precedence of the people’s elected representatives over the bureaucracy. Therefore, the domination of the chairman of the Zila Parishad over the district magistrate and the chairman of Panchayat Samiti over the Block Development Officer was established in West Bengal. (Basu, 1997, p. 72).

The function of the PRIs of West Bengal have undergone three distinct phases. In the first phase, after 1978 the local level institutions were mainly entrusted with the execution of land reforms as well as with management of the several rural development programmes. The second phase started from 1980 when as many as 27 rural development programmes were entrusted to the local bodies. Finally, the third phase started since 1985 during which PRIs of the State were allowed substantial participation in district Planning. (Khanna,1994, p. 311) Furthermore during the last phase involvement of PRIs was encouraged in the resource mobilisation through different incentive schemes. Decentralisation in Resource Mobilisation (1992) was introduced in West Bengal where 50 per cent of collection in excess of district targets in respect of some taxes are ploughed back to the district as an additionality of district plan funds. And small savings collections of the State was also encouraged, where 37.5 per cent of small saving collection above the district target are ploughed back to the district as district plan additionality.

Self governance status of PRIs of West Bengal-two debates

(i) Gandhi's Purna Swaraj in terms of political decentralisation to PRIs

However, it remains to be seen how far the participatory decentralised model and precedence of people's representation over bureaucracy was able to bring about enfranchisement and empowerment to the rural poor in the State. More importantly how far it ensured its hegemony at the power structure of Panchayat in West Bengal. The advocates of self governance in respect to political decentralisation tend to evaluate success of Panchayat of West Bengal in terms of the above mentioned parameters. As they feel that in the rest of India PRIs have been perceived as mere implementing agencies of the development programmes handed down from above. And even in this narrow domain of functioning given to the PRIs, bureaucracy tends to dominate. Against the backdrop of this national trend, it is, however, felt that the situation prevailing in West Bengal (led by the Left Front government where CPI (M) enjoys almost absolute majority) is not fundamentally different. Hierarchy of bureaucracy over the PRIs which existed during the pre-Left Front era in West Bengal and still exists in the rest of India was replaced by the Party hierarchy during the Left Front era. It was argued that CPI (M) has made marginal progress as compared to the rest of India by making a superficial attempt of establishing peoples representatives over bureaucracy. But in practice it did not mark any difference from the notion exercised elsewhere. Bhattacharya (1998) went on to say that the CPIM perceives PRIs as an institution to be utilised as the platform or mass contact to be built by involving the people in the development activities and for the Party (CPI(M) the developmental role of Panchayat is not an end in itself. The Party exercises excessive control over it and the very organisational structure of the Party denies the democratic norm which a grass root institution such as Panchayat requires. Several years ago Törnquist (1991) arrived at the similar conclusion. As he observed top-down approach of functioning of the PRIs in the State and felt that "..despite the impressive decentralisation of powers, even the *panchayats* on the lowest level ...top down approaches seem common. Where the CPI-M is in power, the real decisions are made within the party". (Törnquist, 1991, p. 68). Bhattacharya (1998) further feels quite in line with this argument that the Panchayat as self governing institutions and grass root democratic organisation is incompatible with the omnipotent presence of the Communist Party.[164] Therefore decentralisation is not accompanied with democracy and decentralisation has given legitimacy to centralisation. Thus there is a virtual absence of democracy at the local level and hence the PRIs in West Bengal failed to be elevated to a status of self governance. (Bhattacharya, H, Micro foundation of Bengal Communism,1998, pp.102-137; Bhattacharya, H, "Democracy and Rural Governance in West Bengal since 1978", 1998, pp. 227-238)

Some scholars namely Westergarrd (1987) Webster (1990)[165] Tornquist (1991) Acharay (1993), Kumar & Ghosh (1996) have raised the question of real enfranchisement of the rural poor and felt that there is a tendency of excluding land-less labour and poor peasants from exercising control in the power structure of Panchayats. Webster (1990) also expressed his concern over substantial danger of resurgence of the bureaucracy in the functioning of PRIs. Acharay (1993) and Westergarrd (1987) felt that there is a lack of adequate quality representation of rural poor in the Panchayat. Though the rural poor are being represented in the PRIs of West Bengal but unfortunately they fail to make adequate influence on the decision making body of the Panchayat. "There developed a new institutional structure, decentralised in form but still dominated by the middle and rich peasants. The agricultural labourers and poor peasants though not in proportion have their representations in the new structure but their participation in the decision making process is still a far cry". (Acharay, 1993, p. 1080) Westergarrd (1987) felt the same. "In terms of the popular participation framework it may be concluded that poor are represented in the institutions of power, but by and large this representation has not resulted in any significant increase in their control over these institutions". (Westergarrd, 1987, pp.109-110) Similar conclusion was arrived at by Tornquist (1991) in

[164] The party sources clearly establishes that the Panchayats are emptied of all real content as the important decisions are taken at the level of Panchayat Sub Committee (PSC) violating the elementry principle of democratic decentralisation where people's participation is sought to be ensured. Thus centralising operational mechanism of the CPIM for running Panchayat is evident. At each level of the Panchayat the party forms Panchaytat Sub Committee (PSC) which is the Party's *Parichalana* (organisational*)* Committee (PC) All elected party members of Panchayat Samiti and Zila Parishad will act under the respective committees. The final decision at each level will be taken by the PSC, although the elected members would make the recommendations. (Bhattacharya, H, Micro Foundations of Bengal Communism, Ajanta, Books International, New Delhi, 1998, pp. 108-114)

[165] Mentioned in Lieten. G.K, "Caste, Gender and Class in Panchayats case of Barddhaman, West Bengal", EPW, July 18, 1992, p. 1568

line with the other scholars. He felt, the emphasis is more on representation than on the participation or even consultation of those who are affected by various measures. Therefore, "..the weak peasants are not entrusted and empowered.... but are given some support (although not negligible) and protection, and are being mobilised in favour of top-down campaigns." (Tornquist, 1991, p. 68)

It is worth mentioning that recent amendment to the Pachayat Act, 2003 initiated by the West Bengal government entrusted all rural developmental programmes to the Village Development Council comprising some nominated experts on this area with a view to ensure an objectivity and efficiency in undertaking such activities. Evidently the opposition was raised from different sections of people who argue that this would even induce more partisan use of such developmental funds. That apart it would clearly undermine the power of the elected local bodies and undermines the spirit of democratic decentralisation. (*Anandabazar Patrika*, Bengali Daily, 11th & 12th July 2003)

(ii) Gandhi's Purna Swaraj in terms of fiscal power decentralisation to the PRIs

Panchayat of West Bengal is yet to be considered self governance since they hardly enjoy any fiscal autonomy. The debate in this line was first initiated by Mukarji & Bandyopadhyay Committee (1993). Which was of the opinion that self governance status of PRIs is conditioned upon achieving fiscal as well as functional and administrative decentralisation. So long it is not achieved it ceases to function as self governance. Therefore present limitation of the Panchayat system of West Bengal could be understood from two sides namely conceptual and programmatic (Mukarji & Bandyopadhyay Committee, 1993, p. 4) Concerning conceptual limitation of the Panchayat, the Committee argued that West Bengal has been carrying the legacy of the narrow view where local governments were basically perceived as mere implementing agencies of the schemes handed down by the higher level of governments without having any power--neither administrative nor financial. Programmatic limitation is just the continuation of the conceptual limitation. Once the conceptual aspect fails to acknowledge the PRIs as self governance it automatically leads to programmatic limitation i.e., inadequate empowerment of PRIs as far as functional, administrative, and financial decentralisation are concerned.

In an attempt to measure the autonomy of the local government of West Bengal, Mukarji & Bandyopadhyay Committee set some parameters. More or less the same parameters have also been used by the Ninth Planning Commission (1997) and the Eleventh Finance Commission (1998). Of which the most important are degree of fiscal autonomy of the PRIs along with devolution of functions and functionaries. It is, however, axiomatic that local governments can not act as self governance without the effective means of planning at the local level reflecting local priorities. West Bengal already has gained certain amount of experience in planning from below but how far such decentralised planning model reflects local priorities and ensures involvement of the local people remains to be seen. Hence 'decentralisation of planning without financial autonomy does not carry much sense' therefore it is necessary to discuss in the subsequent sections of this study how much financial autonomy is enjoyed by West Bengal's Panchayat so as to carry out local planning effectively.

Functioning of decentralised planning model in West Bengal

Decentralised development planning has been in practice in West Bengal since 1985-86. For this purpose three-tier planning organisation was set up in every district and PRIs were very intimately involved in it. Decentralised planning organisation comprises the District Planning and Co-ordination Council (DPCC), District Planing Committee (DPC) and Block Planning Committee (BPC) in every district. In West Bengal district plan is prepared first, thereafter funds flow from the State along two channels. For small non-technical schemes they are allotted to Gram Panchayats (GPs), Panchayat Samitis (PSs) and Zila Parishads (ZPs) on the basis of prescribed spending ceiling. For other schemes they are put under various budget heads and released by the respective departments to their respective district level officers.

Any successful functioning of decentralised planning should be based on three main pillars i.e., decision making power of the local governments in formulating local plan, mobilisation of local funds for implementing local planning by the local governments. However, if local funds could not be mobilised, for whatever reasons, in this situation at least ensuring certainty, regularity and transparency in receiving funds from the higher level of governments. And lastly undermining the influence of the bureaucracy in formulating and implementation of planning at the local level. It remains to be seen as to what extent aforesaid conditions are fulfilled in exercising decentralised planning model in West Bengal.

As regards transparency in the process of planning and uncertainty in receiving funds for executing local planning Mukarji & Bandyopadhyay Committee (1993) observed that, firstly, there is hardly any relationship between the district plan and the allocation eventually made in the State budget. Secondly, budget does not show at one place the total amount allotted for particular district. And Mukarji & Bandyopadhyay Committee did not find any copy of the budget in any of the district it visited. Finally, for schemes executed by the Panchayat, funds are received in numerous unpredictable instalments throughout the year making rational implementation difficult. (Mukarji & Bandyopadhyay Committee, 1993, p. 11)

Local level decision making power in the planning process considered to be one of the most important aspects of the success of any decentralised planning. The study undertaken by Bandyopadhyay (1997) observes that there is very little scope of local level decision making in the decentralised planning model exercised in West Bengal thus denying one of the most important conditions of successful functioning of decentralised planing. An annual plan of a district of West Bengal, as felt by Bandyopadhyay (1997), is nothing more than disaggregation of allocation made against different plan schemes allotted to different departments and eventually incorporated in the annual budget of the State government. “Again departmental budgets are voted by the legislature and a department, generally, though not necessarily, represents a particular sector. When departmental allocations come to the district, the local authorities are faced with a take-it-or-leave-it situation. They have no right to suggest less investment in sector A or more investment in sector B.” (Bandyopadhyay, D, 1997, p. 41)

Evidently allocation for a district of West Bengal in all the sectors come in schematic form leaving little role to play by a district to design it’s own schemes. “In the circumstance, can one call the 1985 model an exercise in decentralised planing?.... A close examination reveals that the local authorities had decision making power only in respect of two functions, namely, (A) to choose the location of a scheme, or in other words, to decide in what manner the schematic allocation should be distributed among different Blocks/Villages, (B) to choose the individual beneficiaries of a scheme. Both these functions were, in any case, decentralised even before the District planning exercise started”. (ibid. p. 41)

Similar observation was also made by the First State Finance Commission of West Bengal (1995). The Chief Minister and the Finance Minister of the State mentioned on several occasions that about one half of the plan budget is being spent for the districts every year. The Commission tried to collect data from all departments of the State to find out what proportion of their plan expenditure are spent for districts. The information it got was incomplete and entirely unsatisfactory. (State Finance Commission, West Bengal, 1995, p. 3) The Commission went on commenting that “The Planning process within a district needs re-orientation. At present, in the preparation of district plans, a parallel process of planning is followed. On the one hand the three tiers of Panchayats and Municipalities in a district prepare a plan based on funds provided directly to them by poverty alleviation and similar programmes; on the other, departmental plans are handed down to district officials from above. The two are added up at the DPC level called a district plan. The dichotomy continues. The departmental plans are implemented independently by related officials and lower tiers of Panchayats in particular have no say in the matter unless they are requested to lend a helping hand. At the Panchayat Samiti (PS) level (block level) the dissociation is nearly complete and departmental officials follow their own ways with PSs having virtually no voice. This is the consequence of the traditional vertical line of functioning. The district plan as it stands today is really a splintered plan. The amount of money spent in departmental plans in a district is much more than that handled by Panchayats and Municipalities. The operational part of district planning process continues to be dominated by officials rather than people’s representatives.“ (State Finance Commission, West Bengal,1995, p. 6)

Financial devolution to the PRIs and the role of the State Finance Commissions of West Bengal

Till 1993 West Bengal government followed West Bengal Panchayat Act (1973) passed by the then Congress government which, however, completely ignored the aspect of self governance that can be a guiding principle of the local governments. (Mukarji & Bandyopadhyay Committee,1993, p. 4). Self-government needs at least partial autonomy that could be achieved through not merely financial resource devolution but also financial power devolution to the local bodies.

In constitutional line of 73rd amendment, West Bengal Panchayat Act was amended in order to incorporate some features of self governance into the PRIs. Consequently First State Finance Commission of West Bengal (1995) was set up which was entrusted to review potential resource base of PRIs and was required to make necessary suggestion to the State for devolving financial power to PRIs with a view to make them function as a self government. it remains to be seen to what extent State Finance Commission of West Bengal (WBSFC), 1995 performed this task.

West Bengal First State Finance Commission (WBFSFC), 1995 started with the axiom that local government normally possess built-in-inefficiency in becoming completely self reliant. Such constraints are faced by local bodies all over the world. They began with describing these constraints as follows: "Generally speaking local governments anywhere on the globe are not self-sustaining. They need subventions in various forms from above. One may also note that people living in these localities are taxed by the Union and State Governments in the form of income tax, wealth tax, excise duties, sales tax etc. and thus, the cream is skimmed off. Local bodies are left with the most inelastic and trivial sources of taxation. In view of this, it is generally accepted that local bodies should be helped with adequate funds from above." (WBSFC, 1995, p. 3)

So the focal point of the recommendation of the WBFSFC (1995) is quite clear : that the local bodies need to be given funds from above and they are incapable of being self sufficient. The same notion was also echoed by the West Bengal government while submitting their memorandum to the Eleventh Finance Commission, 1998. "The crux of the problem is that there is a considerable gap between what is being spent by a panchayat/municipal body and what it so far has been able to raise out of its own resources. This resource gap is to be filled by giving funds to the local bodies in the form of entitlements which can not be varied at sweet will. A part of such entitlements may obviously come from the State Government as its justifiable share in tax collection of the State Government. But the balance is to be provided in terms of grants some way or other under the recommendations of the Eleventh Finance Commission" (Memorandum to Eleventh Finance Commission, Government of West Bengal, 1998, p. 16)

That apart, WBFSFC (1995) feels that the fund allotted by the State governments for various development activities and the fund allotted by the Union government for special programmes like Jawahar Rojgar Yojana to PRIs often bear an 'air of uncertainty'. Because it is within the power of the Centre and the State to reduce the size of these schemes or to abolish those altogether. Now with local governments are being endowed with the status of self governance through the amendment to the Constitution (73rd and 74th , 1993) this uncertainty should end. Again it should end by providing them statutory right of receiving untied funds i.e., should not require to follow any schemes formulated by any higher authorities. That would in turn provide them necessary freedom to prepare their own schemes based on local priorities.

In this respect the concept of ‘entitlement’ was introduced to overcome the uncertainty of devolution of funds from the State to the local government. Entitlement fund consists of global share of the net proceeds of State’s taxes i.e., total net proceeds of taxes collected by the State in a year. And it was recommended by the WBFSFC (1995) that out of the total net proceeds of taxes of the State, 16 per cent should be transferred to local bodies as an entitlement. These will be treated as an untied funds at the disposal of the local bodies. Eventually the local bodies would benefit from across the board buoyancy instead of sharing specific tax or taxes. Furthermore under global sharing the level of devolution would be predictable and the total revenue do not fluctuate as much as proceeds from specific taxes.[166]

However, it is pertinent to note that WBFSFC (1995) has mainly restricted itself to the concept of ‘entitlement’ which is basically revenue sharing formula. Therefore, at best local bodies can expect to receive funds from the State regularly as their statutory right. Consequently the Commission put little emphasis on recommending any substantial financial power devolution to the local bodies. Except providing suggestion as regards exploiting some resource potential of the local governments which has been lying unutilised for ages. Of such unutilised potential local resources, irrigation rates and taxes on entertainment were particularly mentioned. WBFSFC (1995) suggested that due attention should be paid to the irrigation rates which is being neglected. Besides, collection of these rates and the related responsibility of supplying water and routine maintenance should be handed over to Zila Parishads. Also taxes on entertainment now collected by the State government, as WBFSFC (1995) suggested, could be handed over to local self government. (WBSFC, 1995, p. 4)

WBFSFC (1995) also seemed to rely on involvement of the PRIs of West Bengal in the decentralisation of revenue mobilisation programme and expected the contribution of the PRIs in the form of different voluntary initiatives with a view to enable them to function as self government. The Commission expressed that ”we would like to invite attention to another aspect namely, voluntary contributions. Contributions in the forms of land,

[166]For distribution among the districts several factors are taken into account. a) Firstly, Population (50%), level of non-literacy (10 %), proportion of backward population , (10%) area of the district (10%), rural population (10%) inverse ratio of per capita bank deposits and working capital of primary agricultural co-operatives (10%) ; b) Secondly, within the allocation should be divided between Panchayats, Municipalities and special areas on the basis of total population; c) the inter-tier allocation of funds are: Zila Parishad (30%) all PS together 20 per cent, all GPs together 50 per cent. d) For horizontal fund sharing among Panchayats Samitis is based on population (50 %) SC/ST population (25 %) and non-literacy 25 % e) Similarly, for sharing funds among GPs the same criteria as in case of Panchayat Samiti will be followed. (Jena, A.C, 1999, p. 139)

labour, technical advice and money came forth in many Panchayats repeatedly in the last decade and a half and this should be widely encouraged. Apart from enhancing resources this generates a sense of participation amongst the people and is an important element in sustaining democratic decentralisation. " (WBSFC, 1995, p.5)

WBFSFC (1995) also suggested some measures of co-operative effort of revenue collection both by the PRIs and the State government which has been existing in the State since 1992 at the Zila Parishad (ZP) level. However, it was suggested by the WBFSFC (1995) that the departments in charge of tax collection in the State can adopt a new approach. In lieu of collection taxes in an isolated manner, the collecting officials can work in co-operation with Panchayat and municipal functionaries. The latter may be able to provide additional information in regard to possible tax evasion and making it easy for tax collecting officials to investigate those cases. Officials would in turn inform the local functionaries about the result of their investigation. Since 1992 ZP's have been participating in collection of some taxes namely, stamp duty/registration fee, entertainment tax, motor vehicles tax and royalties/cesses on major and minor minerals and 50 per cent of collection in excess of district target are ploughed back to the districts as part of the district plan. WBFSFC (1995) suggested that this experiment be generalised now and participation of local bodies be extended to collection of all taxes along with the incentive scheme which has been in operation in the State in relating to small savings collections. Greater involvement of the PRIs is expected to yield good return as there will be built-in-incentive to maximise State revenues. (West Bengal State Finance Commission, 1995, p. 14)

Meanwhile the report of the Second State Finance Commission of West Bengal, 2002 (WBSSFC) was introduced which is yet to be published officially. The WBSSFC (2002) re-emphasised the necessity of providing untied fund as an entitlement to the local bodies and felt that this could be one of the major means of augmenting resources of the PRIs. Again WBSSFC (2002) criticised the State government for not implementing the recommendation of WBFSFC (1995) as regards entitlement funds properly. Thus the WBSSFC (2002) followed almost the same notion as the WBFSFC (1995) that PRIs are suffering from built-in-efficiency in mobilising own resources and hence will continue to be dependent on the higher level of governments for funds. But at the same time the WBSSFC (2002) also admitted the need of augmenting resource base of the PRIs through own resource mobilisation in view of the major fiscal crisis of West Bengal since the mid 1990s. The Commission, however, feels that it might pose considerable problem if PRIs continue to remain completely financially dependent on the State. Nevertheless, the recommendation of WBSSFC (2002) was mainly confined to ensuring untied funds to the local bodies of West Bengal without recommending any substantial devolution of fiscal power to them.

The WBSSFC (2002) came to realise that the First State Finance Commission's (WBFSFC), 1995 recommendations did not receive the attention it deserved. The main emphasis of the WBFSFC (1995) was creation of entitlement funds separated from departmental allocations in each year's budget of the State. Therefore the WBFSFC (1995) recommended earmarking of 16 per cent of the net proceeds of the State taxes for the purpose of creating an 'entitlement fund' without any precondition for their utilisation. Such funds should not be tied with any schemes formulated by any higher authorities and should ensure automatic and regular flow of funds in lump sum to local bodies in order to make them function as a self governance.

Though the recommendation of the First State Finance Commission was made in 1995 the State started allocating to local bodies only since the fiscal year of 1999-00. Eventually, in 1999-00, 2000-01 and 20001-02 some allocations of planned funds were being provided as lump sum grants-in aid from different departments to the local bodies mainly to the ZPs (Zila Parishadas). In 1999-00 a sum of Rs. 515.73 crore was allotted as grants-in-aid from different departments to the local bodies. This figure was subsequently revised at Rs. 218.96 crore in 1999-00. In the fiscal year 2000-01 the above allocation amounts to Rs. 1230.92 crores. Which has been subsequently revised to a sum of Rs. 900 crore. The allocation in 2001-02 has been shown as Rs. 1580.02 croes in the vote on account estimates. (WBSSFC, 2002, p. 249) Evidently, the State was not able to keep pace with the required amount of grants i.e., 16 per cent of the proceeds from all taxes as recommended by the WBFSFC. [167]

It is disheartening to note that "Though the fund is being allotted by various departments as untied grants-in-aid yet in actuality, the departmental schemes are continuing to be executed by the local bodies funded by the departmental authorities presumably in consultation with them. Excepting for the change in the designation of the departmental officers as the ex-officio officers of the local bodies there seems to be no basic change in the methodology for formulation of the plans. It may be observed that departmental officers at the district levels had been consulting the local bodies in prioritisation and implementation of the schemes over a fairly long period. The objective of the SFC to grant a part of the budgetary resources to the local bodies without any condition for accommodating schemes already formulated at a different level is not being served by the current practices." (Interim Report of the WBSSFC, 2002, p. 249) Therefore, such kind of transferring of funds to local bodies, as mentioned above, does not provide the assurance and prior knowledge to the PRIs of West Bengal regarding the untied entitlement essential for planning based on local needs and perceptions. "The departments requested the ZPs (Zila Parishadas) to utilise GLB (grants-in-aid to local bodies) funds for schemes and programmes already identified and proposed at the departmental level, giving ZPs only the option to select and prioritise schemes to be executed. The objective of the recommendations of the First SFC were hardly met by this kind of transfer of fund by the departments even when the total allotment approximated 16 per cent of the tax resources as recommended by the First SFC. Only a small amount of fund was released as untied entitlements to the local bodies." (WBSSFC, 2002, p.2)

[167] According to the calculation made by the West Bengal Second State Finance Commission Rs. 700 crore would accounts for 10 per cent of the net tax proceeds of the state. Evidently except the financial year 2001-02 which might also have been subsequently revised. Therefore, the state can not reach to the 16 per cent level.

Evidently, the report of the WBSSFC (2002) reveals that the objective of providing statutory rights of local bodies to receive entitlement funds, both in terms of quality and quantity, was not attained in West Bengal. As far as quantitative reduction of entitlement funds was concerned the WBSSFC (2002) admitted the fact that the State has been through acute budgetary crisis since the mid 1990s. And such crisis might prevent the State from devolving entitlement funds. In West Bengal Medium Term Fiscal Reforms (MTFR) was introduced. Which is aimed at substantially reducing the revenue deficit during the period 1999-00 to 2003-04 by increasing the level of tax revenue and reducing the non-plan revenue expenditure. Eventually the WBSSFC (2002) felt the urgent need of readjusting the size of entitlement funds and wanted to fix it at 10 per cent of the net tax proceeds of the State instead of 16 per cent. In spite of the severe financial crisis, as the WBSSFC (2002) felt that for adopting the principle of untied entitlement (that is readjusted at 10 per cent) the limitation of financial resources of the State would not pose any problem.

As mentioned above the Second State Finance Commission of West Bengal, 2002 followed the same notion as it's counterpart that the PRIs will continue to be mainly dependent on the funds from above. As they felt that "We also do not see immediate possibility of large-scale own resource generation by LSGs (Local Self Governments). These bodies will continue to be dependent on grants from the State Government for meeting their non-plan and plan expenditure." (WBSSFC, 2002, p. 16) But despite taking this position the Commission also admitted the necessity of mobilising own resources by the local bodies which marked the difference of WBSSFC (2002) from it's previous counterparts. As WBSSFC (2002) again feels that "The LSGs, however, would have to make greater efforts towards mobilising more own resources to make them true self-governing institutions." (WBSSFC, 2002, p. 16) "Funds flowing from the state may not large enough to satisfy all the demands raised in the meetings of the Panchayats. Given the constraints the aspirations of the people are to be met , additional resources will have to be mobilised by the people themselves. The planning meeting of Gram Sansads (Village Council) would provide an opportunity to motivate people to generate and mobilise local resources to meet the gap." (WBSSFC, 2002, p. 5)

However, like it's counterpart even though the WBSSFC (2002) admitted the necessity of augmenting own resources of PRIs quite strongly, in actuality the WBSSFC (2002) did not provide any substantial and specific recommendation in this regard. Excepting giving some suggestion in respect to exploiting several resources of local fiscal domain which have been lying unutilised for long. And readjustment of the proceeds from shared resources between the State and the local governments.

It is, however, usually held by most experts that dependence on the State governments for grants by the local bodies leads to fiscal profligacy and inefficiency. The case study based on Kerala during 1990s revealed that untied grant provided to the PRIs by one rupee reduced own tax revenue by more than one rupee through slackening their own tax effort. (Rajaraman, 2003, p. 35) Contrary to the usual notion, the WBSSFC (2002) feels that untied grants provided to Gram Panchayats (GPs) could be transformed into permanent resource base of GPs. Which would in turn help them to be self sufficient. The Commission observed that the type of schemes so far preferred under the untied grants were mainly constructions of roads & culverts, excavations of canals for irrigation and tanks for fisheries, maintenance and repair of old buildings, construction of school buildings and Integrated Child Development Scheme (ICDS) centres, social forestry, etc. Creation of such assets as felt by the WBSSFC, have high potential for generating future resource for GPs. (WBSSFC, 2002, p. 5)

Besides, giving suggestion of utilising untied funds efficiently with a view to create future potential resource base of the local bodies, the WBSSFC also felt that it is of urgent necessity for local bodies to look for other sources of income. One way of augmenting the resources, as felt by WBSSFC, could be increasing the share of the proceeds from some taxes and duties (namely entertainment tax) or bringing some resources under the purview of the local governments which are at present levied and collected by the State but the proceeds of which are shared with the local governments (i.e., land revenue and cess) Moreover WBSSFC (2002) also mentioned that the PRIs could mobilise resources by increasing optional rates fees on items listed in the relevant local government's Acts which have not been used so far effectively due to lack of by laws to be constructed by the State government in order to put such financial power in reality.

So in sum, it could be concluded that both WBSFCs started with the common axiom that local governments are normally suffering from built-in-efficiency of own resource mobilisation and the consequent need of being funded from above. Subject to this given universal constraint they both wanted to minimise the uncertainty of receiving funds from the State to PRIs by providing them statutory rights of receiving untied funds regularly. However, in view of the acute budgetary crisis of the State the Second State Finance Commission (2002), recommended to reduce the share of the entitlement funds to be devolved to PRIs. Furthermore, though the recommendations of both the Commissions mainly based on providing grants and indirect method of augmenting resource base of PRIs, the Second State Finance Commission seems to have admitted the necessity of own resource mobilisation of local governments. But even such welcoming trend, WBSSFC (2002) did not provide any substantial recommendations in this regards.

The First State Finance Commission (1995), as mentioned above, mainly relied on indirect means of mobilisation of own resources by local governments. As the WBFSFC (1995) suggested involvement of all tiers of local bodies in decentralisation of resource mobilisation programme that has been existing in this State for last one decade at the ZP's level. Which, however, failed to have any impact on the self sufficiency of ZPs. While degree of financial autonomy of ZPs of West Bengal is least amongst the three tiers of the PRIs which would be evident in later part of our study. Moreover, WBFSFC (1995) wanted to encourage voluntary contribution of village people under the guidance and supervision of local governments in order to enhance sense of participation and creation of common property at the rural area. Needless to say all these methods tend to have indirect and intangible effect on financial power of PRIs. Since voluntary contribution and decentralisation of resource mobilisation of power could not be the substitute of devolving financial power to PRIs.

It appears that WBSFCs followed the same notion as the SFCs of all other States which is evident from the studies undertaken by Rajaraman (2001) and the Ninth Planning Commission (1997). Ninth Planning Commission observed that all SFCs of different States have so far put greater emphasis on internal revenue mobilisation, but none has suggested any effective mechanism for the PRIs to generate their own revenue. Thus SFCs neither recommend nor foresee any noticeable change in the tax (including the non-tax) jurisdiction of local bodies. Hence SFCs in general place greater reliance on transfers from the States to the PRIs for bridging the gap between the local bodies' revenue and expenditure. In real terms no improvement in local resource base is likely from the recommendations of the SFCs. (Ninth Planning Commission, 1997, p. 261)

Similar observation was made by Rajaraman (2001) as she noticed that SFCs recommendations were in general confined to transfers from the State governments to local bodies instead of advocating in favour of financial power to the PRIs. While the SFCs generally adopted the soft option and did little to expand the local fiscal domain and merely recommended tax-specific transfers from the State government, and/or a certain percentage of general revenues. "The reasons for absence of substantial expansion of the local bodies seems to be a widespread perception that the local bodies are unable to enforce compliance". (Rajaraman, 2001, p. 5) She further concluded that the formal introduction of the third tier of the PRIs and consequent setting up of State Finance Commissions in different States hardly had any impact on the local fiscal domain in India. It is observed that the States with higher pre-Amendment per capita Panchayat revenue collection i.e., Haryana, Kerala Andhra Pradesh, Punjab are those that also register higher growth in Panchayat revenues during the post-Amendment period. (Rajaraman, 2001, p. 8) In striking contrast to the above observation, there has been a substantial fall of the percentage of own revenue of Panchayat in total revenues of West Bengal (from 17.07 % to 5.08%) during 1990-91 to 1997-98. The reason for such decline is that the State-local flows in the form of grants have outstripped the own revenue growth of the Panchayat in West Bengal. There are other States where the own revenue component have risen dramatically because of stagnation in the State-local transfers (i.e., Andhra Pradesh, Gujrat, Punjab) (ibid pp. 8) Thus there is a clear revenue additionality in the local government's exchequer consequent upon transfer from the State government to the PRIs but not through the augmentation of own resource mobilisation of the PRIs of West Bengal.

Is providing grants to the local bodies a pragmatic option?

In view of the above it can be concluded that so far in West Bengal along with rest of the States PRIs failed to enjoy financial autonomy and these at large remained dependent on grants. Both the State Finance Commissions of West Bengal mainly wanted to reduce the uncertainty of receiving grants from the State government by making it a statutory right. Thus introduction of some element of certainty of receiving funds from the State to local bodies was urgently felt by the West Bengal State Finance Commission (WBSFC) instead of devolving adequate financial power to PRIs.

But the question is how far the State government is able to provide such grants when the State itself facing acute budgetary crisis. And the State in particular and all States in general are constrained by possessing less buoyant and inelastic source of revenue provided the fiscal federal structure of India. In addition, the crisis of the State governments further accentuated by the decreasing volume of central assistance to the States particularly since the economic liberalisation. However, as mentioned earlier, in terms of almost all fiscal indicators, West Bengal has been passing through a major financial crisis. The State's own resources constituted only 31 per cent of the total aggregate expenditure of the State during 1996-99 as against 49 per cent for all the Sates resulted in allocating less funds for development and capital expenditure. Due to this financial crisis the transfer of resources from the State to local bodies is bound to get decreased. Thus the share of compensation and assignment to local bodies and Panchayati Raj institutions declined from 3 per cent to 1 per cent during 1980-81 to 2000-2001.[168]

In view of this unprecedented financial crisis the State urged for Central grants for meeting the obligation of devolving funds to local bodies in the Memorandum submitted to the Eleventh Finance Commission (EFC). As the State felt that, ".. the resource base of the States is very narrow. Because of budgetary constraints of the States, any scheme of devolution of resources from the State level to the local Self-Government institutions will be at best limited. There is persisting imbalance in the fiscal powers of the Central Government and the State Governments. It is therefore felt that the Government of India should make available certain funds to the State which would further devolve resources to the local Self- Government institutions.... At present the establishment expenditure of these local bodies is being mostly borne by the State Governments. The resources of the State Governments are over-stretched to meet such requirements." (Memorandum to Eleventh Finance Commission, Government of West Bengal 1998, p. 15)

The crux of the problem, therefore, is to how to meet the budgetary gap of local bodies. As the State government along with WBSFCs feel that it should be met by grants devolved either by the State government or by the Central government but not through widening potential local fiscal domain. Set aside complete financial autonomy of the local bodies what Gandhi envisaged and which was termed as 'lofty ideals' by Lieten (1996, p. 232)

[168] Sankar, K, ‚Parlous State of Government Finances', EPW, December 30, 2000, p. 4608

as far as pragmatic necessity is concerned enhancement of financial power of the PRIs is urgently called for in order to relieve the State government to run this bodies and enable the PRIs to carry out local level functions effectively.

That apart, transferring some departments of local nature to the PRIs running from the State level would not only reduce the burden on the State government but also enhance the quality of public services of local nature. The resource crunch in running the departments of local nature coupled with absence of any provision for monitoring and control of local government's cause low level of efficiency in these areas. Over time the quality of such services namely primary health and primary education getting deteriorated and failed to live up to the expectation of the people. In recent years the reports prepared by the West Bengal District Primary Education Project (DPEP) pinpoints the problem with the existing system of primary education of the State thus critical lack of accountability of the schools owing to insufficient local supervision and control. West Bengal District Primary Education Project (DPEP) revealed that many other States have already transferred the authority of such functions to local bodies. Further, DPEP recommended for similar decentralisation in primary education in order to improve the quality of education through effective accountability, monitor and control by PR bodies on this area. Though some measures have been taken in recent times to improve quality of primary education of the State but needless to say, without effective functional decentralisation of PRIs, the local bodies would fail to control and supervise the schools. (Banerjee & Others, 2002, p.4215)

Self governance vis-a-vis feasibility frontier debate & devolution of financial power to PRIs

In view of the above the urgent necessity of devolving financial and functional power to PRIs are understood. In West Bengal the debate as regards such decentralisation mainly have taken two different shapes— feasibility frontier and self governance. The notion of 'feasibility frontier', as already mentioned above, describes that West Bengal has been operating under several constraints i.e., constitutional, structural and class (Basu, 1997, p. 65) As far as federal-State fiscal relation is concerned, there has been a persisting imbalance in the fiscal power distribution between the Central government and that of State governments. This imbalance seems to be a major handicap to provide self governance status to the PRIs in West Bengal. Consequently limits the State government in advancing the decentralisation of power in the area of State-local relations in general and financial power in particular. At its level best the State can introduce some programmatic/operational reforms with limited administrative, functional and financial decentralisation to PRIs. This is, however, considered more than perceiving the PRIs as an implementing agency of schemes handed down from the above but less than the concept of self governance as Gandhi (incorporated in the Article 40 of the Constitution) and 73rd and 74th amendment to the Constitution envisaged.

This is the main axiom from where advocates of development debates or 'feasibility frontier' begins. According to them, the success of decentralisation of the PRIs in West Bengal should be judged in terms of this existing constraint imposed upon them from above. West Bengal so far has made some progress in initiating the process of decentralisation of power and in many respects remained far ahead of other States measured against various decentralising parameters, as also admitted by several studies. (Mukarji & Bandyopadhyay Committee, 1993, Jena, 1999, WBSFC, 1995, Lieten, 1996) Therefore, the idea of providing self governance status to PRIs, as advocates of 'feasibility frontier' feel, should be perceived in the context of such limited capacity or 'feasibility of the State.

In August 1992, the Minister of Panchayats of West Bengal, Dr. Surya Kanto Mishra articulated this view in his concluding speech to a Panchayat workshop, Calcutta in the following manner, "I want to make it clear that devolution of power can be done to the extent that the State Government possesses it. In India there is only one government. The rest are local administrative bodies. The State Government does not possess any state power, and therefore can not decentralise state power and is circumscribed in the devolution of finances to the lower level."[169] Such conceptualisation of 'feasibility frontier' has also received support from Lieten (2000). "In my analysis," as Lieten proceeds, "I shall keep in mind the 'feasibility frontier'. The LFG is not an autonomous government, uninhibited by the Indian Constitution and by the relative strength of class forces and forces of production. The terms dictated by the Constitution and monitored by the federal government, by the President and by the Supreme Court, are obvious.... The idea of feasibility performance, and the assessment of the LFG for what it has done and not for what it ideally could have done and ethically should have done.... "[170]

Needless to say financial autonomy of the PRIs is one of the necessary conditions for making local bodies function as self governance. But the State strongly feels that against the backdrop of the existing imbalance of fiscal power distribution between the Centre and the States the possibility of substantial empowerment of PRIs and providing self autonomy to PRIs so far financial and functional decentralisation is concerned is limited. Consequently other indirect means of mobilising funds by PRIs namely introduction of decentralisation of resource mobilisation programmes and encouragement of voluntary contribution of PRIs at best could be achieved subject to this constraint. As we have earlier mentioned that the WBSFCs report also seem to have followed the same line with the West Bengal government. Both the Commissions were also refrained themselves from

[169] Quoted in Lieten, G.K, " For a New Debate on West Bengal", Mainstream, February 12, 1994, p. 22 and also see Lieten, G.K, Development, Devolution and Democracy Village Discourse in West Bengal, Sage Publication, 1996, p.232)

[170] Lieten, G.K, West Bengal After A Quarter Century LFG, Paper Presented at The 16th European Conference on Modern South Asian Studies, held at the University of Edinburgh, Scotland, September 6-9, 2000, p. 3

recommending substantial fiscal power devolution to the PRIs consequently acknowledged other form of indirect involvement of PRIs in resource mobilisation.

Another measure of involving the PRIs in resource mobilisation so far taken in the State is voluntary contribution. It would be relevant to take note of the position of government of West Bengal in this matter. The State feels that the resource mobilisation effort of the Panchayats can not only be perceived in terms of monetary contribution but in terms of other important contributions made by them by undertaking public programmes at the local level, thereby reducing cost of the State governments. The study undertaken by the then Chief Minister of West Bengal Jyoti Basu admits, “it can not, however, be denied that the performance of Panchayat in respect of mobilisation of resources in terms of tax collection has not been very commendable”. But the study went on commenting “In respect of resource mobilisation by Panchayat in West Bengal it has to be kept in mind that Panchayat are playing a very useful catalyst role in raising local contribution and unleashing mass initiative for undertaking such public works as construction of small bridges and digging small canals for extending irrigation facilities etc. This can be regarded as an effort on the part of the Panchayats for mobilisation of resources in the sense that resource mobilisation is not an end in itself.” (Basu,1997, pp.80-83)

Similar opinion was also expressed by the Minister of Panchayats of West Bengal, Dr. Surya Kanto Mishra along with Mr. Basu, “It is a fact that all three tiers of the Panchayats are overwhelmingly dependent on the government (union and state) for funds. Though our State Act provides for raising of tax and various non-tax revenues by the Panchayats, the scope of large scale resources mobilisations by the Panchayats is very limited. ....However, whatever taxation power are vested with Panchayats have also not been optimally used. Over the past few years, the average collection of taxes per Gram Panchaytas has been about Rs. 25, 000 which is almost insignificant as against average flow of Rs. 10 lakhs as grant. However, there has been a considerable amount of resource mobilisation through voluntary community contributions in the shape of free labour or material though the documentation of such contributions has been sketchy. It is noteworthy to mention that voluntary contributions give a sense of ownership through participation of the people whereas taxation still considered as a coercive measure. “ (Mishra, 2002, p.65)

Moreover West Bengal government feels that indirect contribution of the PRIs in resource mobilisation result in much lower cost of implementation of any scheme than otherwise thereby reducing cost of the State government. “It has also been noted from our internal surveys that the scheme executed by the Panchayat costs significantly less than technically similar schemes executed through the conventional procedures, primarily because of savings on account of avoidance of contractors and the supervision being voluntarily performed by the Panchayat members” (Jyoti Basu Speaks, Department of Information and Cultural Affairs, 1991, p. 82)

It , however, appears that at least some degree of financial autonomy which can be achieved through own resource mobilisation by the PRIs, can not be substituted by voluntary contribution of the PRIs in the form of unpaid labour, monitoring and implementing Panchayat schemes. For such contributions alone could not help to provide any sort of self sufficiency to PRIs. At best that can only substantiate the fiscal powers of the PRIs. Study undertaken concerning this area also observes that "...apart from the things, it is generally the poorer sections of the community who would end up contributing most of free or partly paid labour, allowing the relatively better off sections free ride on them" (Ghatak & Ghatak, 2002, p. 56)

The Mukarji & Bandyopadhyay Committee (1993) perceived that the crux of the problem of PRIs in West Bengal is conceptual limitation i.e., failing to see PRIs as an institution of self governance as it has been the case in the rest of India since Independence. This study, however, reveals that in West Bengal insignificant fiscal power provided to PRIs or failure of perceiving the PRIs as self governance is not only the outcome of conceptual limitation. But this limitation has been legitimised by referring to the existing imbalance of the distribution of power in general and fiscal power in particular in the Indian federation.

Furthermore, it seems that that two facets of limitation--conceptual and programmatic are inter-twined with each other. There is no watertight compartmentalisation between these two. Progress of one side is dependent on at least some progress made of another side. Therefore the programmatic decentralisation of power to the PRIs would not be achieved significantly unless empowerment of PRIs (so as to make a self-government) is ensured. It appears that the conceptual limitation of the PRIs in West Bengal has led to further programmatic limitation.

A recent inter-State study of Panchayat system undertaken by Jain (1999) and Rajaraman (2001) indicates that different States have gone further in terms of above mentioned parameters of decentralisation. Thus the degree of autonomy of PRIs achieved in other States within the given structure of Indian federation is far higher than what has been achieved by the PRIs of West Bengal. As we have already observed from the study undertaken by Rajaraman (2001) that own resource mobilisation capacity of the PRIs of some States are much higher than that in West Bengal. Besides, Jain (1999) observes, West Bengal is not only behind Kerala but also behind Madhya Pradesh and Karnataka in terms of following indicators such as power to prepare local plans, transfer of staff, control over staff and transfer of funds. (see Ghatak & Ghatak, 2002, p. 53)

True, that the omnipotent presence of a unitary bias inherent in the Indian federal structure always exerts a limiting effect on the States attempting to proceed further in terms of decentralisation of power to the local bodies. While some scholars argue in favour of this but others, however, feel that imbalance of distribution of power between the Centre and the States should not be any alibi for the States to deny decentralisation of power to the PRIs. "While the larger question of centre-state financial relations has to remain on the agenda, this should not be used as an excuse for the states to delay or deny devolution of functions and finances to the local bodies" (Kannan,1993, p. 2645) Again, it is also argued that the existing trend of concentration of power at the hands of the States would only be offset by increasing decentralisation of power to PRIs. "In order to contain the states to function within their proper spheres, it may be necessary to strengthen local governments which would counteract the increasing trends of centralisation in the working of the states. The demand for increased devolution of powers on the part of the states could be conceded only when it is corresponded by similar devolution to the local government level." (Datta, 1987, p. 316)

Contrary to the above observations, however, West Bengal government feels that the States in general have been operating under the centripetal bias of the Indian federal system and therefore the decentralisation of power to the local bodies from the States is inevitably gets limited which making it difficult to realise the avowed objective of self governance status to PRIs in the arena of the State-local relations. What is possible in the given condition is to provide some programmatic/operational side of decentralisation. This argument also received support from the following study. As the study feels that any decentralisation from the State to local governments should be preceded by the decentralisation of power from the Centre to the States. Thus .."does it make sense to speak of decentralisation of functions, authority and funds to the district and lower levels without such decentralisation from the centre to the states?.... Likewise in the realm of economic and financial relations, planning and decision making process have become exclusively centralised while the present constitutional arrangements and practices on the sharing of taxes between the centre and the states remain highly inequitable. ...The decentralisation process must begin with the centre shedding its power to the states, to be followed thereafter from the state government to PRIs." (Chandrasekhar, 1989, p.1435)

However, despite the existence of predominantly unitary bias of the Indian federal structure, it is also true that the States have been constantly struggling against this trend with a view to change the balance of power in favour of the States particularly since the early 1980s. Different committees were set up with the initiative taken by the States as well as the Centre during the last few decades. Consequently any conflict arising in the arena of the Centre-State relations could no longer be resolved in an extra-parliamentary manner bypassing statutory options as often done in the past. (Sathyamurthy,1989) Thus Centre-State relations has undergone considerable change since Independence and the States are now in a position of strength to raise their voice against any unitary trend of federal-State relations in general and federal-State fiscal relations in particular. So Centre-State relations as well as States-local relations should be understood from this dynamic context of the federal-State relations in India rather than a static one. Due attention should also be paid to ensure local government's autonomy, at least partial, while demanding more decentralisation of power from the Centre.

Decentralisation of power should be actively pursued by the States not only for the sake of empowering the PRIs but also with a view to reduce the burden on the State government's exchequer for running these bodies. That could be attained by decentralising functions, functionaries and financial power to local bodies. The organisation of decentralised planning should be preceded at least by some degree of fiscal autonomy of PRIs in order to ensure that local needs and priorities be reflected properly. Which consequently would reduce acute intra-State inequity in general and West Bengal in particular and would eventually enhance the quality of public services in the rural area.

Resource raising potential of the PRIs of West Bengal

Much to the people of West Bengal's surprise there seems to be a considerable shift from the previous position of the State as regards devolution of financial power to PRIs. A circulation dated 14th October 2003 given by the Panchayat and Village Development Department, West Bengal stated: Panchayats should be economically self sufficient and over time PRIs should minimise it's dependence on the State government for funds. That goes without saying that if PRIs do not have any fiscal power and only depends on the higher level of governments for funds and confine itself to implementing schemes handed down from the above it would fail to take any independent initiative of formulating development programmes in the respective rural area. Therefore, Panchayat should find it's own way to mobilise own resources instead of depending for funds either on the State or on the Centre. The potential source of income of Panchayats which have so far been lying unutilised needs to be exploited completely so that resource base of Panchayat could be expanded considerably. Panchayats should take necessary attempt to construct by laws that would in turn enable them to impose optional fees. Article 223 of the West Bengal Panchayat Act 1973, empowered Panchayats to make such bylaws. And according to the amendment to the West Bengal Panchayat Act 2003 construction of such by laws by the Panchaytas was made obligatory. By laws should be made in such a manner that it should be in accordance with the spirit of the Panchayat Act of West Bengal. Panchayat could amend such by laws if it is necessary. After making such bylaws Panchayats are required to send it to West Bengal government. If the government feels that such by laws are in contradiction with the spirit of the Panchayat Act of West Bengal the State under this circumstance would cancel those bylaws.

However, the circulation seem to confine itself to providing necessary condition of constructing bylaws which would help Panchayats to impose optional fees in the rural areas and did not take much consideration of other large areas of tax and non-tax potential of the PRIs. Nevertheless such steps, how small it is, should be heartily welcomed. In view of the above development we need to discuss vast potential resource base of PRIs which have remained unutilised and need to be also exploited along with constructing by laws in order to enable Panchayts to impose optional fees on items listed in the West Bengal Panchayat Act.

More than one decade ago It was acknowledged by Mukarji & Bandyopadhyay Committee,1993; and later on different studies pursued by WBFSFC, 1995; Mitra (1996) and Jena (1999) that that there is a fair possibility of going above near-zero autonomy of PRIs of West Bengal. Though there are some constraints of raising revenue for local level governments in general, it is not the case that virtually no resources can be raised. The constraints are legal, political and administrative. But despite these constraints there is a possibility of attaining at least some degree of self sufficiency.

Dependence of the local government on the State for resources was first categorically pointed out by Mukarji & Bandyopadhyay Committee (1993). The committee felt that in West Bengal, Panchayats are not at all concerned about self reliance. More or less all Panchayats in West Bengal raise only about 1% of their total expenditure. The Panchayats seem to become a spending only agencies of money received from above. (Mukarji & Bandyopadhyay Committee,1993, p. 10) Studies undertaken by Mitra (1996) and Jena (1999) on Panchayat finance of West Bengal hold the same view. These studies indicated that over the years there is a definite improvement in the revenue base of Panchayats but this can be attributed to the grants-in-aid received from the State.

Percentage of own resources of the Gram Panchayat (GP) in this State constitutes on an average 7.1 per cent of its total receipts. (Jena, 1999, p. 143) In spite of some potential of revenue raising, GPs have remained totally dependent on the State government for their financing requirements. Since there is no in-built compulsion to mobilise their own revenue for running their administration. It is to be noted that the GPs dependency on the State government for grants is about 92 percent for both development schemes and establishment grants. (Jena,1999, p.143)

However, degree of dependence on the State for funds in the case of Zila Parishads (ZPs) and Panchayat Samiti (PSs) are much higher than GPs. (WBSFC, 1995, p. 19 & Jena,1999, pp. 144-145) There has been a virtual absence of own revenue mobilisation efforts of Panchayat Samiti resulting in a total dependence of PS's on the State government for grants. (Jena, 1999, p. 144) The major source of revenue for Zila Parishad comes from schematic grants which constitute on an average 97 per cent during the period of 1991-96. The contribution of own resources in the total receipts of Zila Parishads has been less than 1 per cent and also over time which has been showing declining trend. (Jena, 1999, p. 145)

Therefore, the gap between total demand and total collection of taxes has widened over time reflecting a definite trend of under-utilisation of the fiscal capacity of different tiers of Panchayats of the State. (Mitra, 1996, p. 160) Such passivity is more evident at the PCs and ZPs levels than at the GPs levels. Which is also evident from the observation made by the WBSSFC (2002). "Firstly GPs were found to utilise funds more speedily than other tiers of Panchayats. The range of expenditure for the GPs varied between

Rs. 4 lakh to Rs. lakh per year. Secondly, given the constraint of varying resource potential, the GPs have better record of own resource mobilisation than in other tiers." (WBSSFC, 2002, p. 15)

It is true that there are some problem faced by PRIs in generating resources. But it is not true that virtually no resources could be raised. However, potential revenue sources of PRIs could be divided into five categories i.e., own revenue (as assigned at par with the Act), shared revenue, optional fees and rates i.e., user charges, grants and others prospective areas of revenues. (see chart 3). The problem regarding own resource mobilisation of PRIs of West Bengal are summarised as follows:

1. Lack of adequate structure of tax collecting machinery
2. Under-utilisation of tax potential of PRIs due to being proximate to the people and encroachment of the State on traditional tax domain of PRIs
3. Overlapping taxing power of three tiers (GPs, PSs, & ZPs) of local governments leads to further under-utilisation of financial power of PRIs.
4. Untapped potential resource base of PRIs consequent upon agricultural development of the State
5. Absence of any initiative taken by PRIs in respect to exploiting non-tax revenue potential of local fiscal domain
6. Absence of proper technical, legal and administrative guidance from the State as regards levying user charges or optional fees, rates and tolls. Therefore, such optional fees could not be levied by GPs unless by-laws are constructed to put that financial power into effect

(i) Lack of adequate structure of tax collecting machinery

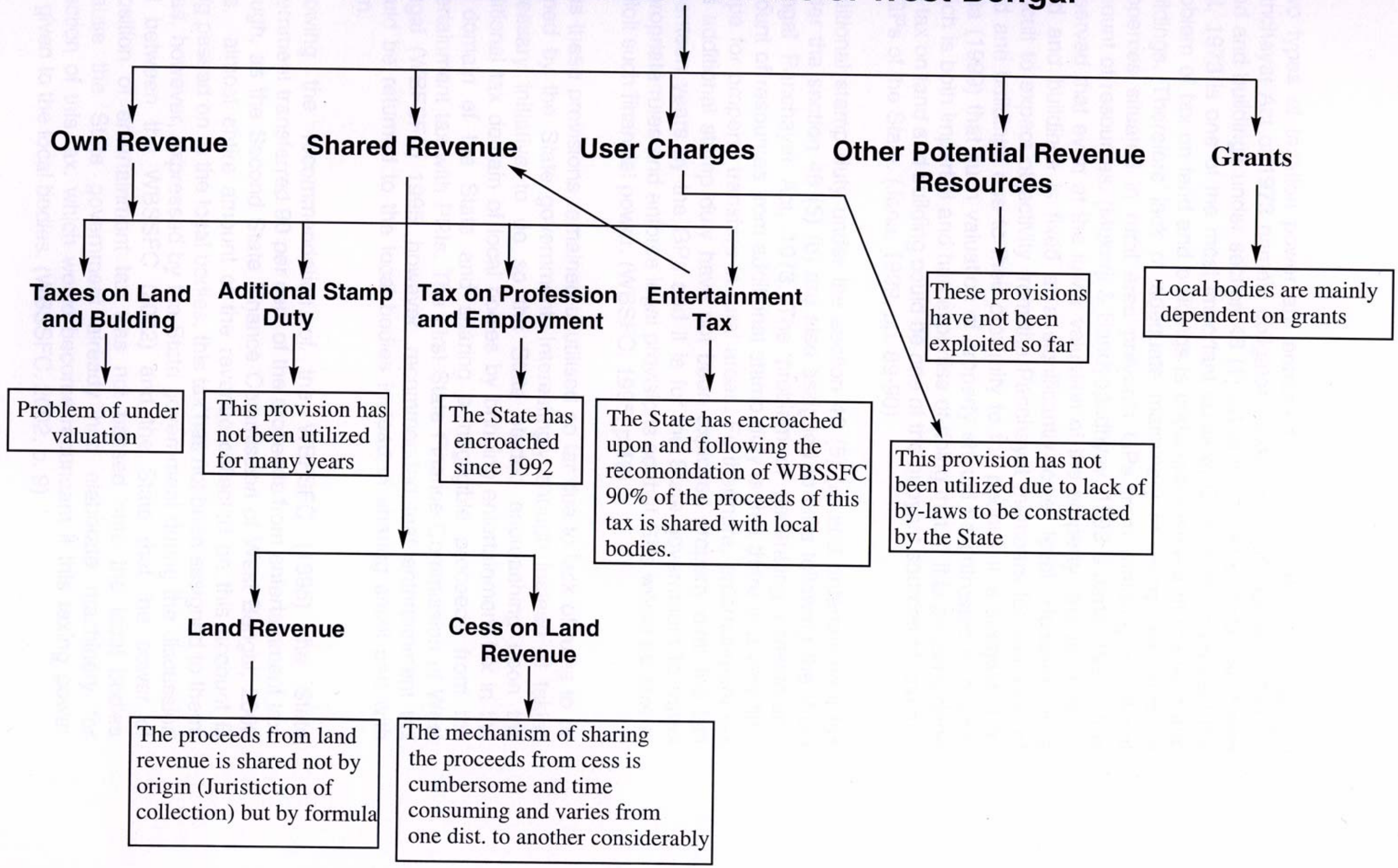
One of the reasons of poor tax collection in the State is the lack of adequate machinery for collecting tax. In West Bengal there is a provision to appoint "collecting sarkars" or "bill collectors" under the rule 33 of the Gram Panchayat. It is observed that for many of the "collecting sarkars" tax collection for Panchayat is a part time job and usually they are employed elsewhere. Therefore they can not be expected to take up the tax collection job on a full time basis as the total remuneration they get in a year is negligible amount due to low level of collections. This is one of the factors which contribute to poor tax collection and accumulation of arrears indicating the average collection rate around 55 per cent of the total demand. (Jena, 1999, pp. 93-94)

(ii) Under valuation of tax potential of PRIs and encroachment of the State on traditional tax domain of PRIs

Two types of taxation power are entrusted to GPs by the West Bengal Panchayat Act of 1973 namely obligatory taxes and optional fees. Tax on land and buildings under section 46 (1) (a) of the West Bengal Panchayat Act, 1973 is one of the most important taxes at GPs level. At present the problem of tax on land and buildings is under-assessment of the land and buildings. Therefore lack of adequate machinery of proper valuation of properties situated in rural area prevents GPs from realising significant amount of resources. (Mukarji & Bandyopadhyay, 1993 & Jena, 1999) It is

Chart: 3

Potential Resources of PRIs of West Bengal



observed that even at the lower valuation of the property the tax rate on land and buildings is fixed at a significantly lower level. However, it is difficult to expect objectivity from the Panchayat members for valuation of land and buildings due to their proximity to the people. It is suggested by Jena (1999) that such valuation of property should be entrusted to a body which is both impartial and has expertise of doing that. If it is properly done the tax on land and building could be one of the buoyant sources of revenue of GPs of the State. (Jena, 1999, pp. 89-90)

Additional stamp duty under the section 46 (5) (a) and entertainment tax under the section 46 (5) (b) are also assigned to GPs following the West Bengal Panchayat Act, 1973. The problem of generating considerable amount of resources from additional stamp duty is that there is a very little scope for property transfers in rural areas. Furthermore, entertainment tax and additional stamp duty have not been exploited properly over the last seventeen years by the GPs and it is for the State government to frame appropriate rules and enforce legal provisions so that GPs would be able to exploit such financial power. (WBSFC, 1995, p.19)

Thus these provisions remained unutilised so far due to lack of rules to be framed by the State government. Interestingly enough instead of taking necessary initiative to do so the State started encroaching upon the traditional tax domain of local bodies by bringing entertainment tax in the tax domain of the State and sharing a negligible proceeds from the entertainment tax with PRIs. The First State Finance Commission of West Bengal (WBFSFC) 1995, however, recommended that entertainment tax should be returned to the local bodies instead of sharing small part with them.

Following the recommendation of the WBFSFC (1995) the State government transferred 90 per cent of the proceeds from entertainment tax. Though, as the Second State Finance Commission of West Bengal, 2002 feels, almost entire amount of the revenue collected on this account is being passed on to the local bodies, this tax has not been assigned to them. It was, however, expressed by the State government during the discussion held between the WBSSFC (2002) and the State that the power of imposition of entertainment tax was not passed onto the local bodies because the State government already had elaborate machinery for collection of this tax. which would become redundant if this taxing power was given to the local bodies. (WBSSFC, 2002, p. 9)

However, profession tax which was one of the important taxes of local bodies was also encroached upon by the State. The West Bengal Panchayat Act, 1973 empowered PRIs to impose parallel Tax on Profession and Employment under the section 46 (1) (b). But it was deleted during the 1992 amendment to the Panchayat Act in line with decision of the State government to levy a 'Single point' Profession Tax. (WBSFC, 1995, p. 19)

Apart from own tax domain of PRIs of West Bengal, it also entitled to receive proceeds from some resources which are levied and collected by the State but shared with local bodies. Of which land revenue and cess on land revenue are to be mentioned. The ZPs are mainly entitled to receive certain assigned revenues like 5 per cent share of land revenue and road cess and public works cess. However, some problems related to devolution and collection of land revenue and cess prevent these resources from being a significant source of income of local bodies of the State. Firstly, land revenue and collection of cess until the introduction of West Bengal Land Reforms (Amendment) Act, 2000 was not a significant source of revenue. And over the years the collection of cess became very poor. As Rajaraman (1996) observes “The lack of interest of state governments in restructuring the land revenue is due far more to the fact of it being a shared tax, as to the political difficulties of taxing agriculture.” (Rajaraman, 1996, p.1076)

It is heartening to note that the collection of land revenue of the State in recent years started increasing significantly due to upward restructuring of land revenue through the introduction of West Bengal Land Reforms (Amendment) Act, 2000. Consequently the percentage rate of growth of land revenue collection of the State increased from 27.35 in 1995-96 to 244.1 during 2000-01 (WBSSFC, 2002, p. 8). Evidently collection of cess on land revenue also registered significant growth and it increased from Rs. 1, 42, 74, 258 crores in 1998-99 to Rs. 2, 52, 72, 600 crores in 2000-01 i.e., 77 per cent increase over last three financial years. (WBSSFC, 2002, p. 10)

The other problem was, however, in respect to the proper mechanism of sharing of the proceeds from the land revenue and cess between the State and local bodies i.e., different ZPs of the State. As regards sharing of the proceeds from land revenue with Panchayats Rajaraman (1995) feels that it is most usually not by origin (jurisdiction of collection) but by formula. The formula may be fairly simple in proportion to population for example but any departure from sharing by jurisdiction takes away all local interest in compliance or enforcement. “If land revenue continues to be shared state–level tax it should be shared by jurisdiction.” (Rajaraman, 1996, p. 1076) In West Bengal along with the most States land revenue continue to be shared by the formula not by the origin thereby neutralising any incentive of collection of land revenue from the districts.

As regards sharing the proceeds from cess on land revenue, it is noticed that the shared revenue also failed to become predictable source of income of local bodies. While the present arrangement of sharing cess is cumbersome and time consuming. (WBSSFC, 2002, p. 10) Moreover, collection of these cesses varies from year to year and district to district. (Jena, 1999, p. 50) Therefore, though the income of certain ZPs (such as Burdwan ZP) is significant on this count, cess collection are very unevenly distributed amongst the districts of the State. (WBSFC, 1995, pp. 19-20). In order to overcome such difficulty WBSSFC (2002) recommend that powers to collect land revenue and cesses and to retain them be devolved to the local bodies. In that case it may be necessary for the local bodies to suitably strengthen their revenue collection machinery. (WBSSFC, 2002, p. 10)

(iii) Problem of overlapping areas of tax domain of different tiers of PRIs

The main problem of PSs and ZPs is that the functional domain of these two bodies are not clearly separated. Often it shows overlapping areas of taxes and duties imposed by both of these tiers which leads to confusion and passivity of utilising their financial power. Therefore degree of dependence of these two bodies on the State for funds and assigned revenues are much higher than GPs. However, Panchayat Samitis (PS) have discretionary power to levy tolls on roads/bridges/ferries maintained by them. Besides that PSs can also levy rates on water and lighting where such services are provided by them. And fees for registration of vehicle, sanitary arrangements at fairs and license fees for markets. Needless to say, such fiscal powers are hardly utilised at PSs level. Zila Parishads (ZP) in the State have no obligatory powers of taxation. The fiscal power of Zila Parishads are more or less in conformity with those Panchayat Samitis. They possess certain revenue raising powers which include tolls, rates and fees under the section of 181 of West Bengal Panchayat Act 1973.

(iv) Other potential resource base of PRIs on account of agricultural development of the State

Having been voted to power Left Front the government concentrated on breaking the impasse in agriculture through institutional change in rural area. But it seems that PRIs of the State has failed to exploit potential resources arose from the surplus generated in agricultural production. A cross section of villagers and the leaders expressed that people are willing to pay agricultural income tax if the responsibilities of collection is entrusted to PRIs. At present only agricultural income tax[171] is imposed in plantation areas in the State. (Jena, 1999, p.98)

Mukerji & Bandyopadhyay Committee, 1993, feels that in West Bengal agricultural growth has witnessed marketable surpluses. Marketable surpluses will go up in the future because agricultural development has been receiving organised thrust. Now in this context, if agricultural marketing arrangements cant keep pace with rising productivity they will act as constraint on growth of agriculture. However, it seems that organised agricultural market would not only conducive for agricultural growth but also it would create considerable potential for PRIs to mobilise resources through market fee. (Mukerji & Bandyopadhyay Committee, 1993, p. 27) At present these markets are organised under statutory provisions and Panchayats do not receive any revenue out of it. (Jena, 1999, pp. 100) Only in Punjab agricultural markets contribute a portion to rural development as

[171] K.N Raj Committee on Agricultural Wealth and Income (1972) first proposed direct tax on agriculture through ‘Agricultural Holding Tax’. After that Bagchi (1978) suggested modified view about the agricultural income tax. (Bagchi, A, “Agricultural Holdings Tax a Modified Scheme”, EPW, 23rd September, 1978) Later on Rajaraman & Bhende (1998) proposed another modified version of imposing tax on agriculture. (Rajaraman, I, & Bhende M.J, A land-Based Agricultural Presumptive Tax Designed for levy by Panchayats, EPW, April 4, 1998) The necessity of imposing agricultural income tax is mainly due to the fact that there is a distinct trend over the last few decades of a declining proportion of direct taxes on agriculture (Land Revenue and Agricultural income tax) to the total direct tax revenue (Centre, State, Union Territories). Contrary to that, major share of agriculture and allied activities in total plan outlays of India over the Plan periods are being allotted in agriculture. (Mondal, S.K, Tax on Agricultural Income in India: An Estimate of Revenue Potential (1975-76 to 1981-82), Journal of Social and Economic Studies, Vol. 2, No. 1, January-March, 1985, pp.13-14,) The group of economists suggested similar type of imposition of agricultural income tax in West Bengal. It is noticed that the farmers particularly belong to the middle and upper income groups normlly enjoy various subsidies in agricultural provided by the State government. This subsidy coupled with institutional change in rural West Bengal contributed to agricultural growth in the State during the last two decades. Middle and upper income groups farmers benefited most due to this uptrend in the agricultural growth therefore this section should come under the tax net. (Ananda Bazar Patrika, Bengali Daily, Calcutta, 13th July, 2002)

Panchayats impose market fee and charges on transactions. Similar market fee and charges should be entrusted to Panchayats in West Bengal with a view to augment the resource base of PRIs. (Jena, 1999, p. 100)

However, WBFSFC (1995) had different suggestions in this regard. The Commission noticed that considerable resources are being generated through setting up Regulated Markets in many districts of the State following the West Bengal Agricultural Produce Marketing (Regulation) Act, 1972 by levying market fees. But such resource generated in the Regulated Markets, as WBFSFC feels, should be brought within the purview of the statutory District Planning Committee (DPC) and the net proceeds of market fees be ploughed back into the hinterlands of such markets. (WBSFC, 1995, p. 9)

(v)Absence of any initiative taken by PRIs in respect to exploiting non-tax revenue potential of local fiscal domain

Unutilised non-tax revenue sources also could provide considerable potentials to raise significant amount of revenue of different tiers of PRIs. For example, Zila Parishads (ZPs) have valuable lands and buildings inherited from the old District Boards which, efficiently and commercially managed could strengthen the revenue base of ZPs. Social forestry sponsored by the Panchayats has already generated assets that will keep growing and could provide GPs with steadily rising revenues. Due attention should also be paid to fishery schemes sponsored by the Panchayats that have also created assets. Which if professionally managed and exploited could not only benefit fishing community but could generate good revenues. (Mukerji & Bandyopadhyay Committee, 1993, p. 10) Another source of non-tax revenue could be leasing out watershed and irrigation sources. A water rate on irrigation as per the Panchayat Act should be imposed by Panchayat and collected by them. Besides that non-tax sources like utilising “khas lands” and tanks for fishing, horticulture and social forestry, have the potential to contribute to Panchayat resources. These sources should be tapped efficiently. (Jena, 1999, p. 98)

(vi) Lack of bylaws as regards optional fees

Gram Panchayats (GPs) of West Bengal are also entitled to levy some optional taxes, levy of rates and fees such as rates for water, fee for providing sanitary arrangement, lighting rate, fees on the registration of non-motorised vehicles, tolls on roads/bridges/ferries maintained by GPs. But most of these sources of revenue have not been properly exploited so far. (WBSFC, 1995, p. 19) As it was also acknowledged by the Second State Finance Commission of West Bengal (2002). However, one of the major constraints of Panchaytas in West Bengal to impose such rates, tolls and optional fees was lack of by-laws. Therefore, resources as mentioned above could not be levied by GPs unless by-laws are constructed to put that financial power into effect. The State government has to fix minimum and maximum rate for the purpose. But this was so far delayed by the State government and the potential income of GPs could not be mobilised.

As mentioned above there seems to be a considerable shift from the previous position of the State as regards talking initiative of constructing such by laws. Thus in order to provide a concrete guideline to GPs, West Bengal Panchayat and Village Development Department constructed a standard instruction which were sent to all Panchayts of the State so that they can take an initiative to construct necessary by laws. That would in turn enable them to impose different rates, tolls and optional fees on villagers. Therefore, lists of prospective areas of tolls and optional fees and the rate at which these could be imposed was also attached to this circulation. Which is, however, supposed to be sanctioned by each Village Council comprises total number of electorates of a village in order to empower GPs to impose tolls and optional fees in respective villages.

Evidently, protest from different sections of people including main opposition political parties of West Bengal prevented this circulation from being implemented till date. It was argued that the government of West Bengal unduly imposing non-tax burden on vulnerable section of villagers while bypassing the attempt of taxing rural rich. According to knowledgeable sources the Left Front government will make an attempt to encourage GPs to construct such bylaws necessary for exploiting aforementioned resources optional fees in their respective jurisdiction soon after the Parliament election which is scheduled to be held in May 2004.

However, it remains to be seen how many Gram Panchayats (GPs) in West Bengal finally managed to get such bylaws sanctioned by Village Council of a particular village. What kind of resistance were faced by GPs in constructing such bylaws i.e., which provisions of optional fees were acceptable to village people and which seemed to hurt the vulnerable section as complained by poor villagers as well as opposition parties. After exploiting different optional fees, rates and tolls what would be potential revenue base of GPs. To what extent it would minimise their dependence on the State government for funds i.e., what would be the proportion of own revenue (tax and non-tax) to total revenue collection of GPs.

Conclusion

West Bengal is among the second generation of States in Panchayat movement and introduced politicised Panchayat with conducting election at regular intervals. Such political decentralisation coupled with administrative decentralisation i.e., adequate emphasis on curbing the role of bureaucracy, perceiving rural poor as active participants rather than passive agents in the process of execution of the rural programmes and introduction of decentralised planning,1985 marked the beginning of revitalisation of the PRIs since the late 1970s and significantly put this State ahead of other State governments of India.

However, in course of time it was increasingly felt that West Bengal PRIs had failed to live up to the expectation and consequently lagging behind some States in terms of degree of decentralisation. The criticism of West Bengal PRIs has given rise to two types of debates. One is the point of view of ‘feasibility frontier’ introduced by Lieten, Datta and West Bengal government itself and another one is that of self governance. The advocates of the ‘feasibility frontier’ argued that West Bengal, having to operate under Indian union facing several limiting factors--constitutional, structural and so on which limits the State government in furthering the process of decentralisation to the PRIs. Therefore, the performance of West Bengal's PRIs should be judged in the light of such constraints rather than any ideal conceptualisation of self governance as Gandhi and the 73rd & 74th amendment to the Constitution, 1993 had envisaged. Subject to this limitation or feasibility performance, they felt, West Bengal's PRIs performed quite well and hence may be considered to have elevated to self governance. On the other hand the position harping on self governance debate mainly has two ramifications. One group Bhattacharya and Maiti focused on true enfranchisement of the rural poor i.e., adequate representation, participation and decision making power of them in the PRIs of West Bengal. And another group of self governance dwells on the functional and financial empowerment of PRIs. The advocates of self governance in terms of political empowerment of PRIs however, argue that grass root democracy is yet to take place in West Bengal where real decision making power is not enjoyed by the common people. By and large PRIs are being perceived as implementing agencies of programmes handed down from above as it has been existing since independence in the rest of India and also in other States. The notion pursued in West Bengal is not really different on any account. The decentralisation is more in form than in essence and this developmental agency role of PRIs of West Bengal can not be considered as end in itself. PRIs are mainly perceived as a means of strengthening the political base of the Communist party and so that they can exercise complete control over it. Decentralisation and centralisation are thus two parallel process in West Bengal.

The self governance debate advocating financial and functional empowerment, however, centres around the notion that West Bengal PRIs have been suffering from two limitations--conceptual and programmatic. It is argued that the PRIs in West Bengal were not provided with sufficient financial and functional power and hence have failed to be elevated to the level of self governance. While self governance is synonymous with financial and functional self reliance. The conceptual limitation as described by the Mukarji and Bandyopadhyay Committee is not a mere limitation of the State that could be overcomed in course of time. The present study, however, reveals that such limitation are legitimised by the logic of 'feasibility frontier' which leads to further programmatic limitation. In other words, programmatic limitation is an extension of the conceptual limitation. In this context it would worth noting that the degree of functional, financial and administrative decentralisation achieved in other Indian States subject to the structural limitation faced by the States is significantly higher than that in West Bengal.

The discussion of decentralisation of power is, however, relevant against the backdrop of severe financial crisis facing by all the States during the last one and half decades. Such financial crisis resulted in allocation of inadequate funds for public services to be provided in the rural sectors. Such lack of fund coupled with low level the supervision and lack of involvement of the PRIs deteriorated further the quality of these public services. It is argued that decentralisation of power to the PRIs would not only improve these services but also would relieve the burden on the State government of running these departments of local nature. Furthermore, if the establishment cost of the PRIs are borne by these bodies themselves the burden on the State governments as well as on Central government for running PRIs will be substantially reduced. That is particularly relevant in the light of the fact that the Centre also has been facing severe economic crisis resulted in low level financial flow from the Centre to the States.

Against this urgent need of decentralisation of financial and functional power to PRIs, West Bengal government following the notion of feasibility frontier tend to pursue the path of indirect hence insignificant financial empowerment of PRIs and limited administrative and functional decentralisation. As regards the financial power decentralisation the government starts with the axiom that local bodies should be helped with adequate funds from above and consequently asked the Centre to provide funds to the State for helping PRIs to function as self governance. Thus the State focused on providing grants and pursuing indirect form of financial empowerment of the PRIs such as decentralisation of revenue mobilisation scheme, voluntary contribution of the PRIs instead of taking adequate administrative, legal, organisational measures to tap unexploited revenue potential for the PRIs. The West Bengal State Finance Commissions seem to have mainly followed the notion pursued by the West Bengal government so far. It has confined itself primarily to revenue sharing formula in the form of 'Entitlement'. Which is nothing but redeployment of funds along with some suggestion in regard exploiting of existing potential of resource of the PRIs.

However, recently the government of West Bengal took an initiative to enhance the fiscal power of the PRIs as regards imposing user charges which was so far remain unutilised due to lack of necessary guidance to be provided by the State while leaving vast potential of resource mobilisation by PRIs unattended. Whatever little the effort may be such attempt should be heartily welcomed and can be expected that it would eventually further the process of fiscal decentralisation of the PRIs of West Bengal.

Conclusion

Discrimination against a State is itself a value judgemental and a subjective term which is quite difficult to quantify to any one's satisfaction. Such discrimination, however, could on the one hand be deliberate, State specific, politically motivated or guided by other motives. On the other hand it could be part of the general discrimination faced by all States (of course in different degree) belonging to a particular unfavourable structure. Therefore, this discrimination may not necessarily be directed against a particular State but against the States as a whole.

As far as fiscal federal relations in India and hence functions of two multiple resource transfer agencies are concerned they seem to discriminate against the States in general by providing more power to the Centre. Moreover, the Centre exercises enormous control over these bodies through the terms of reference dictated to the Finance Commission and through other directives to the Planning Commission in order to retain more fiscal power. This consequently leads to centripetal bias in the Indian federation. Such centralised tendency was guided by the notion of giving greater power to the Centre by depriving States in general; in this deprivation all States are treated equal. Therefore, it seems to us that it is mainly directed against the States as a whole in an attempt to strengthen the Centre and not directed against a particular State.

In this omnipotent Centripetal bias of the Indian federation which tends to accentuate the vertical imbalance i.e., the imbalance of fiscal power between the States and Centre, less developed States are more adversely affected than the richer States aggravating inter-State i.e., horizontal imbalance in the Indian federation. This is despite the fact that the Finance Commission and the Planning Commission within their limited autonomy are constantly on the look out for suitable criteria for resource devolution among the States in order to redress the ever widening regional imbalance.

The reason behind such widening regional disparities is found in the structural constraints of the Indian economy. Deep-seated regional imbalance existing from the pre-Independence days due to different land settlement, and public investment policies coupled with different degrees of commercial penetration into different regions ,however, shaped the future development of the States during the post-Independence days. Therefore, the States started their journey since Independence at different development stages and variations of the resource mobilising potential. Such a legacy of inter-State imbalance combined with the operational failure of federal fiscal relations in India seems to have aggravated the pre-existing inter-State inequality further.

Among the major operational failures of fiscal federal relations of India, it should be noted that discretionary budgetary transfers along with other institutional transfers disbursed through Centrally controlled financial institutions have a high degree of regressivity. Conversely statutory transfers made through the Finance Commission and formula based Plan transfers made through the Planning Commission are said to be less regressive than other transfers. But such limited progressivity of statutory transfers and formula based (Gadgil Formula introduced since 1969) Plan transfers are being offset by the situation that over time non-formula based discretionary transfers along with transfers made by the Centrally controlled financial institutions have been gaining importance over such formula based transfers and statutory transfers. Evidently, the larger the volume of discretionary transfers in federal fiscal devolution the more unequal would be total transfers among the States per se. Thus richer States are quite expectedly in a better position to attract financial assistance made through the Centrally controlled financial institutions, large allocation of Plan outlay and other forms of budgetary transfers.

Regional inequality which has been deeply rooted in India's economy can not be eradicated by only injecting limited progressivity in the statutory and formula based Plan transfers (Gadgil formula has been changed three times since its inception (1969) in order to inject more progressivity into it) But it needs a radical approach to deal with this problem. Seemingly, the objective of attaining regional equality could be achieved not only through devolving more fiscal resources through better criteria for the devolution of resources among the States but also providing more fiscal power to the States in general and less developed States in particular. This would eventually enhance resource mobilising potential of the less developed States and enable them to catch up with the high income States and also would bring parity in the stage of development of different States.

Without having such a radical approach to address such deep seated regional imbalance, the laws of market will obviously take upper hand. It would be the market that would eventually determine the volume of financial transfers among the States. Therefore, in spite of the professed goal of the Indian federation to be guided by the egalitarian motive, ultimately it is the market which would be the main determinant of the allocation of resources among the States. The more advanced the economy, the more industrialisation and the more trading and economic activities and hence a higher level of allocation of institutional finance and thus better provision for infrastructure. This would automatically lead to the high resource mobilising potential of these rich income States and hence larger Plan allocation and other forms of financial assistance. Furthermore, this would result in a higher level of resource mobilisation potential of these advanced States compared to the less developed States.

It should not be overlooked that there is of course some room for political influence and manipulation in attracting investment both from private and public purses into respective regions through manipulating either government's policies, financial assistance from Centrally controlled financial institutions and commercial banks and/or attracting private investment, through better connections and influence. In addition, an advanced region with same political party both ruling at Centre and the State seems to strengthen such non-economic factors determining the degree of favour enjoyed by that particular State. But there seems to be no omnipotent political influence in the matter of attracting larger volumes of financial assistance into a particular region. On the other hand, economic influence appears to play a dominating role. This study reveals that there is a strong positive association between stages of development and total resource disbursed.

Since the early 1980s, it has been perceived that some States are ruled by Parties which were in opposition to the party ruling at the Centre. Such political opposition, however, could not stop them from making progress. For example, southern States have been since the late 1970s and the early 1980s belonged to strong anti-Centre block and witnessed anti-Congress government since 1980s. Despite such political opposition, these States registered considerable growth in terms of all economic indicators during the last several decades. Conversely, Uttar Pradesh and Bihar which have for longer time ruled by the same political party i.e., Congress, both at the States as well as at the Centre, remained in the same position as before. In some areas they even registered sharp declines. Therefore, by and large some States were relatively advanced and made stronger progress than others irrespective of their political colour. Thus there hardly appears to be any strong positive association between political parties and economic development through comparatively larger allocation of resources to these States. However, it would be worthwhile to undertake inter-disciplinary study in order to deepen our understanding whether there is any, whatever negligible it may be, correlation between political opposition and volume of resource devolution among the different regions.

Considering the State of West Bengal, we can observe that from the very outset the State carried the legacy of deeply rooted structural constraints of its economy which accentuated its deterioration in terms of almost all economic indicators since the mid-1960s. Until then the State was grouped under the rich income States and managed to secure a relatively better position in terms of attracting resources. But eventually the State registered decline much more sharply and consistently compared to other States over the last several decades and started being grouped under the middle income States. As the State deteriorated, total transfers of resources deteriorated. The State witnessed such deterioration not only since 1977 when the Left Front government came to power but also during the pre-Left Front era when the same political party ruled both at the State and the Centre. But, it is worthwhile to note that at the same time the State secured much better position than that of poor income States. Therefore, West Bengal being a middle income State in the Indian federation since the late 1970s became the victim of regressive structure of the Indian federation while at the same time managed to be far ahead of other less developed States. Evidently, these less developed States seem to be much more victimised and attained much worse position both compared to the rich income States as well as the middle income States in the regressive structure of resource transfers of the Indian federation.

Economic deterioration of the State's economy was further accentuated due to its typical structural constraints i.e., absence of regionally committed industrialists who play a catalyst role in the Indian federation to attract resources into respective region. Therefore law of market hence economic factors and other non-economic factors were hardly in favour of the State.

Eventually, the sharp deterioration of its economy was interpreted in terms of being politically motivated discrimination against the State since the Left Front government came to power.

The discourse of discrimination thus could be viewed against two different constraints constituted on West Bengal, one is economic and historical and other one is related to centripetal bias of the Indian federation. Therefore, continuous economic deterioration of West Bengal could be interpreted in terms of regressive structure of federal fiscal set up of India on the one hand and on the other basic historical conditions which constituted constraints on West Bengal's development such as the export orientation of Bengal's economy, absence of regionally committed enterprises. Furthermore, after Independence protectionism and import substitution policy were imposed on the whole country. And thus benefited such States which had even earlier concentrated on production for the home market. Whereas Bengal would have benefited from a policy favouring export-led growth.

So far as the existing institutional mechanism for the transfers of resources from the Centre to the States are concerned, such transfer of resources is basically unjust and contains centripetal bias. Moreover, such institutional mechanism for the transfers of resources from the Centre to the States clearly discriminates against poor and middle income States in which West Bengal belongs to. Therefore, existing federal financial system of India did not actually discriminate against West Bengal as such but imposed uniform rules. On account of which West Bengal was not negatively discriminated against but the existing mechanism also does not permit positive discrimination in favour of the disadvantaged States including West Bengal.

The State, however, argues that the cause of the present deterioration of West Bengal is mainly due to politically motivated and discriminatory Central policies pursued since 1977 when the Left Front came to power. Ashok Mitra, the then Finance Minister of West Bengal, argued that the State was discriminated against while it was denied enough budgetary resources, adequate share of industrial licences, and financial assistance which resulted in low level of economic activities and low level of resource mobilisation potential of the State. Moreover, on the pretext of low level of resource mobilising potential of the State further low level of allocation of Plan outlay was made which led to poor infrastructural development, low economic activities hence further low level of institutional assistance. Which resulted in further low level of resource mobilisation potential of the State. So the vicious circle was complete.

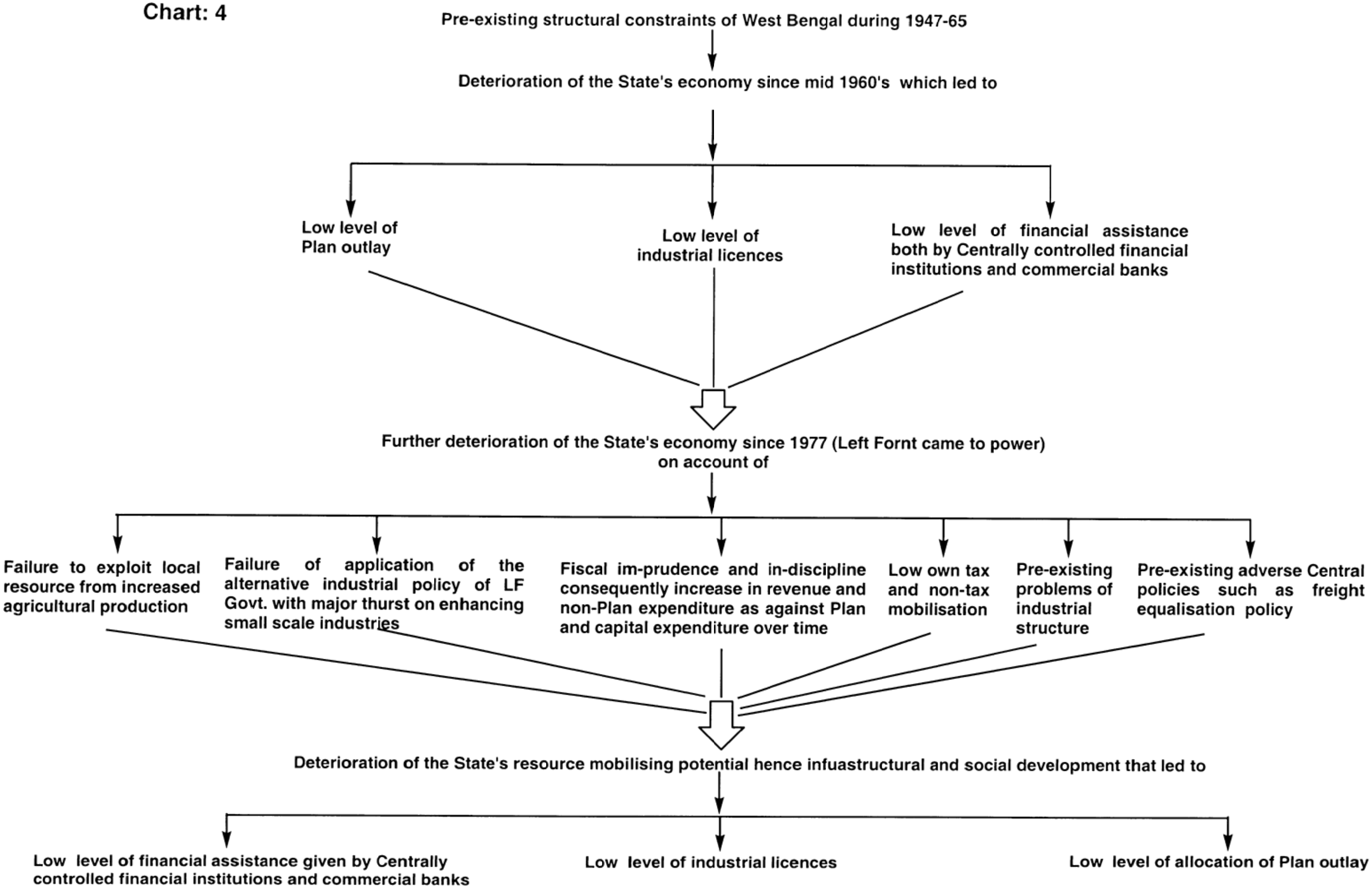
Therefore, the short term theory of discrimination as presented by the State since 1977 tend to single out itself from the economic, historical reality of the State as well as from the regressive structure prevailing in the Indian federation which is, as mentioned above, directed against all States and more particularly all less developed States instead of a particular State. In addition it seems the State hardly exploited its limited resource base with better management of its economy. For last two decades the State has been practising fiscal imprudence and a low level of economic management which eventually made the State's budgetary position worst among almost all States. Therefore, fiscal indiscipline exercised by the State seems to be overlooked if we only concentrate on State specific constraints and regressive structure of the Indian federation.

The State appears to have also failed to pursue its alternative industrial policy, of the 1977, which placed due emphasis on enhancing small scale sectors and intended to reduce the dependence of the State on large scale industries. Because these industries are said to be more recession prone and that apart, the profitability and expansion of these large scale industries depend on factors which are largely beyond the control of the State. Moreover, the State also failed to exploit resources from increased agricultural production which has taken place since 1977 through the massive structural change in the rural economy of West Bengal. The misconceived principle of 'feasibility frontier' represented the idea that the States belonging to the Indian federation are inhibited from devolving adequate fiscal power to the local governments while they themselves hardly possess it. Therefore, the State seems to have made little effort to enhance its resource base wider by either exploiting the resource potential and widening its revenue base within its limited fiscal power or with a more efficient management of its economy. On the contrary, persistent poor economic management of the State made the situation further worse and put the State in a disadvantageous position in the Indian federation to attract resources from different sources. Needless to say, this further reinforced the perception of discrimination against the State. Therefore, as against the concept of short term discrimination which is said to be time specific, State-specific and politically motivated, we can present the model of long term structural constraints of the State operating under regressive structure of resource allocation of the Indian federation on the one hand, and inability of the State to widen its revenue base either through exploiting untapped resources and/or through checking the practice of fiscal imprudence and profligacy on the other. This will be evident from chart 4.

Therefore. following the discourse of discrimination as was felt time to time by erstwhile Bengal and now West Bengal the question immediately arises in our mind how far such discrimination as accused by Left Front government was time specific, State specific and politically motivated discrimination. And how far continuous economic deterioration of West Bengal could be interpreted in terms of regressive structure of federal fiscal set up of India at the one hand and on the other basic historical conditions which constituted constraints on West Bengal's development such as the export orientation of Bengal's economy, absence of regionally committed enterprises. Furthermore, after Independence protectionism and import substitution policy were imposed on the whole country. And thus benefited such States which had even earlier concentrated on production for the home market. Whereas Bengal would have benefited from a policy favouring export-led growth.

The main thrust of my argument, however, was that existing institutional mechanism for the transfers of resources from the Centre to the States are basically unjust and contains centripetal bias. Moreover, such institutional mechanism for the transfers of resources from the Centre to the States clearly discriminates against poor and middle income States in which West Bengal belongs to. Therefore, existing federal financial system of India did not actually discriminate against West Bengal as such but imposed uniform rules. On account of which West Bengal was not negatively discriminated against but the existing mechanism also does not permit positive discrimination in favour of the disadvantaged States including West Bengal.

Chart: 4


Pre-existing structural constraints of West Bengal during 1947-65
Deterioration of the State's economy since mid 1960's which led to
Low level of Plan outlay
Low level of industrial licences
Low level of financial assistance both by Centrally controlled financial institutions and commercial banks
Further deterioration of the State's economy since 1977 (Left Fornt came to power) on account of
Failure to exploit local resource from increased agricultural production
Failure of application of the alternative industrial policy of LF Govt. with major thurst on enhancing small scale industries
Fiscal im-prudence and in-discipline consequently increase in revenue and non-Plan expenditure as against Plan and capital expenditure over time
Low own tax and non-tax mobilisation
Pre-existing problems of industrial structure
Pre-existing adverse Central policies such as freight equalisation policy
Deterioration of the State's resource mobilising potential hence infuastructural and social development that led to
Low level of financial assistance given by Centrally controlled financial institutions and commercial banks
Low level of industrial licences
Low level of allocation of Plan outlay

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